RURAL HOUSING AUTHORIZATIONS

HEARINGS

BEFORE THE

SUBCOMMITTEE ON RURAL HOUSING AND DEVELOPMENT

OF THE

COMMITTEE ON BANKING, HOUSING, AND URBAN AFFAIRS
UNITED STATES SENATE

NINETY-SEVENTH CONGRESS

SECOND SESSION

TO CONSIDER THE FUTURE OF THE FEDERAL ROLE IN RURAL HOUSING AND THE PRINCIPAL AGENCY RESPONSIBLE FOR THOSE PROGRAMS, THE FARMERS HOME ADMINISTRATION

JANUARY 14, 1982—LAS CRUCES, NEW MEXICO
JANUARY 15, 1982—SANTA FE, NEW MEXICO

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RURAL HOUSING AUTHORIZATIONS

THURSDAY, JANUARY 14, 1982

U.S. Senate,
Committee on Banking, Housing, and Urban Affairs,
Subcommittee on Rural Housing and Development,
Las Cruces, N. Mex.

The subcommittee met at 8:30 a.m. in the Municipal Building, Senator Harrison "Jack" Schmitt, presiding.

OPENING STATEMENT OF SENATOR SCHMITT

Senator Schmitt. The hearing will come to order. Good morning to you all, and I welcome you here today. I want to thank the city of Las Cruces for their assistance in making these facilities available today.

Today we begin the serious business of considering the future of the Federal role in rural housing and the principal agency responsible for those programs, the Farmers Home Administration.

These hearings are part of the intensive review process every domestic Federal spending program is receiving. The need for budgetary restraint does not allow us the luxury of continuing wasteful or ineffective programs. In some cases we have modified programs, in other cases we have eliminated them. This has enabled us to pare over $32 billion from the budget for fiscal year 1982.

As chairman of the Rural Housing Subcommittee of the Banking Committee of the U.S. Senate, I have been charged with the responsibility of examining the Federal role in rural housing. Are these programs needed? Do they work? Do the benefits of the programs justify their existence? These are questions that must be answered.

New Mexico is a rural State typical of others in many respects. Because it is a rural State, if these programs are not working, then the people of New Mexico are the losers. Similarly, I do not want the programs that are needed and are working to be cut drastically. The issue is too important for that.

We have come to New Mexico to hear from those who best know the subject—people living in rural areas, familiar with Farmers Home Administration, familiar with the problems. This approach may not seem unusual to you in New Mexico who are exposed to hearings of this kind frequently on other subjects, but it is somewhat revolutionary in Washington. It is the tendency to feel that the wisdom of the country resides at the Potomac. Obviously, this is not true.

This is the first field hearing the Rural Housing Subcommittee has held since 1977. The new Republican leadership of the Senate believes in much more frequent and comprehensive review and oversight of Federal programs. In the absence of such review, significant problems develop as the bureaucracy strays from the intent of the Congress and the voters.

Today's hearing will focus on these basic questions:

How well do Farmers Home Administration programs meet the needs of housing in New Mexico?

Where are the problems? Is the administration of the program at fault?

Can the private sector meet the housing and financing needs of rural areas?

My preliminary analysis has not been reassuring. Based on what we have found so far, it appears that the following is true:

Farmers Home programs are not designed to meet the needs of western rural areas to the extent that they meet the needs of eastern rural areas.

The past administration of Farmers Home Administration programs in New Mexico has been so bad that where funds have been available, those funds have not, on balance, been well used, and we've found that considerable funds have not been used at all.

The rural housing programs have been costly and have not gone to those who need help the most.

We have found some serious problems:

New Mexico has had 30 subsidized apartment projects funded in 5 years, while the national leader, North Carolina, has had 180 projects funded.

This has occurred although New Mexico is almost twice as rural in terms of population distribution as North Carolina.

But New Mexico also fares badly within the region. Although New Mexico has more families eligible for assistance, and more substandard housing than Utah, Nevada, Colorado, or Arizona, it has had half the number of section 502 housing loans these States had in the last 5 years.

Farmers Home housing programs are meant to serve rural areas, yet we have found that in New Mexico at least 24 percent of the total Farmers Home Administration activity in 1981 occurred in our urban counties.

Farmers Home and housing programs are meant to help poor people, yet in Luna County 89 percent of the population is eligible for subsidy. In Mora County 96 percent of the families are eligible, Grant County 81 percent, Catron County 92 percent, and so forth. These are poor counties but with the limited dollars available to assist our poor, we should target our assistance to those most in need. We will never have sufficient funds to assist all of the currently eligible population but we must try to target the funds better than they have been in the past.

We must also consider at what cost we are providing housing. In the 502 program we are spending almost $3,700 a year per family to help buy a house, yet in six counties we find 40 percent of the families are delinquent with their accounts. The rental assistance program is even more expensive; we spend $7,500 a year per family. Isn't there a less expensive way to help people find affordable housing? Should we focus on economic development throughout the government instead of housing development? Should we focus on rehabilitation of the existing houses rather than expensive new houses? These questions require answers.

We have found that although New Mexico is the sixth most rural State in the Nation, with the seventh poorest population, and with a poorer, more rural population than any of our neighboring States, New Mexico ranks 38th in receipt of Farmers Home Administration funds. Moreover, of the limited funds we do get, the New Mexico Farmers Home Administration office has not used its full allocation of funds.

During fiscal years 1980 and 1981, New Mexico has returned over a total $9 million of its allocation. As a result, at least 1,948 New Mexican families, for whom funding was available, did not receive assistance.

I do not know why all these sad facts are true. In some cases over-regulation brought on by inadequate law is at fault, in some cases. In some cases it appears that bad administration is at fault. And in some cases the problem is due to legislation designed by legislators not concerned with the needs of the rural West.

But that is the purpose of these hearings, to determine what is right and what is wrong with our rural housing programs, and then move to correct the problems, legislatively if necessary, administratively if possible.

We are indebted to those witnesses who are here today for their help and advice. Without their assistance we wouldn't know as much as we know already. They will help us discover realistic, practical solutions to some very difficult problems.

I bring to you the regrets of Senator John Heinz of Pennsylvania who intended to be here today. He is very interested in the rural problems of his State. However, he is also interested in surviving the weather, and they were unable to get out of Washington.

Our first witness is a particularly important participant in these hearings. He is Mr. James Hudson, Director of New Mexico's Farmers Home Administration office. He has been in office only since early last year, but already he has made tremendous progress in correcting the serious and longstanding administrative problems that New Mexico has suffered in the Farmers Home Administration for the last 10 years.

We will hear some fairly harsh testimony about the Farmers Home Administration and its local administration, Jim, but in my view this does not reflect upon your performance. The problems of personnel and policies are the result of a long period of misadministration which will take a long time to correct.

Today's testimony will help Jim continue progress toward more effective programs.

With that, Jim, if you would take the witness stand and give your statement, please? If you choose to summarize, that certainly is acceptable, but you do have a relatively short statement, so it's your choice.

STATEMENT OF JIM HUDSON, STATE DIRECTOR, FARMERS HOME ADMINISTRATION, ALBUQUERQUE, N. MEX.

Mr. Hudson. It's relatively short, Senator, if I can read it.

Senator Schmitt. Yes, please do. By the way, before you start, let me caution all of the witnesses that the hearing will have to end promptly at 11:30 because of travel commitments, and, also, because of that we would like you to limit your statements to no more than 10 minutes. And I will have to be fairly strict on enforcing that guideline. We do want to ask questions about the program. Jim, go ahead.

Mr. Hudson. Mr. Chairman, I appreciate the opportunity to appear before you today and to provide you information about the rural housing program of the Farmers Home Administration [FmHA] in New Mexico.

In our State, FmHA housing obligations totaled almost $25 million for the fiscal 1981 year that ended last September 30. That total included 670 single-family loans for $20.3 million, 6 rural rental housing loans for $4.2 million, and 1 self-help housing technical assistance grant for $80,610. As you know, the mortgage loans for the individual homes financed under the self-help program come from the regular 502 single-family program.

PRIVATE CREDIT AVAILABILITY

You asked if private credit is available to finance housing in New Mexico's rural areas. Because by statute the population we serve is limited to the low- and moderate-income segment, these families may have some difficulty obtaining credit from private sources.

For single-family borrowers to obtain a loan, the borrower must be unable to obtain credit elsewhere at reasonable rates and terms that can be afforded. When it appears to us that an applicant can qualify for an FmHA loan, the applicant must supply us with proof that private credit is not available.

The multifamily housing program is primarily designed to assist low- and moderate-income people. The term is longer and the rate is lower than private lenders would be willing to extend. This permits rents to be established at lower levels.

As you can see, these conditions naturally limit the ability and willingness of private credit institutions to lend to that population served by Farmers Home.

More specifically, FmHA is the prime lender outside the urbanized areas in 14 of New Mexico's 33 counties. They are Bernalillo, Catron, Chaves, Cibola, Colfax, DeBaca, Guadalupe, Quay, Rio Arriba, Sandoval, San Juan, Socorro, Torrance, and Union.

New area-based definitions of low and moderate income that became effective last December 21 will extend FmHA loan eligibility to more New Mexicans, although I am unable to say just how many. The old national definition of $11,200 annually as low income has been replaced by $13,500 to $18,000 in various counties of the State.

You also asked us to respond to the question of whether FmHA requirements unnecessarily increase the cost of housing in New Mexico. It may be that the minimum property and thermal standards or some other particular requirement have caused some degree of difficulty in individual circumstances because of geography, terrain, or some other feature.

The Department of Housing and Urban Development is currently considering possible modifications to the minimum property standards to see if certain requirements can be reduced. FmHA and, I understand, the Veterans' Administration are working with HUD on this project.

Two main elements under study are (1) whether model codes can be used in place of certain portions of the minimum standards, and (2) whether it might be preferable to leave the marketability and livability aspects to the consumers in the marketplace rather than codified for the entire country in one regulation.

Although we do not have a timetable as to when these modifications might be completed, we are of the opinion that some changes probably can be made without reducing considerations of health and safety in housing construction. Model codes recognizing the unique characteristics of individual communities and States have been adopted in increasing numbers in recent years. It seems only logical that we take advantage of these efforts and experience.

FARMERS HOME ADMINISTRATION THERMAL STANDARDS

We recognize that FmHA's thermal standards are among the most stringent in the Nation. Perhaps the most stringent. You may recall that a court test delayed implementation of those standards.

The thermal standards were developed after we discovered that many families were unable to make their mortgages and utility payments in the wake of the rapidly accelerating energy costs that followed the oil embargo of 1973–74. This problem was particularly acute in areas where alternate forms of home heating were not available.

Although the new standards require a modest increase in the cost of a new home, we have found that the total cost to the family—when utility costs are computed along with the home cost—are less in the long run. We also found that fewer families had to choose between paying on the mortgages or the utility bill.

As to whether the high level of discretion required of individual FmHA employees affects their efficiency, Mr. Chairman, let me say this:

Our employees do exercise considerable discretion. They have a heavy workload, and they handle a varied caseload of loan applications. There may be occasions when someone has felt he or she received short shrift in trying to obtain an FmHA loan. We don't claim infallibility.

We do say, however, we have always felt that it is better to have a county supervisor so located as to be able to sit down with a local person, someone in the community, to discuss the problem. And when possible, try to solve that problem.

The county supervisor, who also lives in the community, reports to a district director. The district director usually is a former county supervisor who has had the same experience: local people dealing with other local people. The director knows the territory, so to speak.

The director is the first step up in the appeals process. If any person has an application for a loan denied, that person can appeal.

No foreclosure on any loan is approved until the State director says yes, after receiving recommendations sent up from the county supervisor.

Indian housing poses special problems, Mr. Chairman. As you probably know, most Indian land is owned by the tribe in common. This has resulted in a general unwillingness of some tribes to invest control of a site in an individual through a long-term lease or other arrangement necessary to provide satisfactory security required by law. At any rate, FmHA has experienced no large demand for housing on Indian reservations in New Mexico because tribes have preferred HUD's housing program.

Mr. Chairman, this completes my prepared statement. I will be happy to respond to any questions you might have, and I do have copies of the statement available for those who would like to have them.

Senator SCHMITT. Thank you, Jim. I realize that you really are just getting into the problems of your administration in depth, but do you have any insight for the subcommittee on why New Mexico has turned back so much money over the last 2 years, and I guess a related question, why the productivity of the county supervisors is only about 12 loans a year rather than what one might expect from a private sector loan officer?

NEW MEXICO RETURNS $100,000

Mr. HUDSON. If you look at our housing programs, basically we have subsidized money and unsubsidized money. We have used the subsidized money to the main extent. We turned back, I think, $100,000, but we also weren't credited with line 3 loans that were bounced in the fiscal year 1982 that should have been taken out of fiscal year 1981. So, we ran that, probably as close as we could.

The problem came about in New Mexico with the unsubsidized money. And the problem there was the old income limit, at $15,600 people just could not show repaymentability on those loans at the interest rates that we were charging; in other words, the numbers just don't jibe. Now, last December all those income limits were raised, and instead of talking $15,600 we're now talking up to $23,000 in some counties for those loans. So, we would anticipate an increase in that activity.

In the area of multifamily housing, I guess——

Senator SCHMITT. Those are high-interest loans, are they not?

Mr. HUDSON. Those are high-interest loans. The subsidized loans are the ones that we can subsidize down to 1 percent, depending upon family income, but the unsubsidized loans at 13¼ percent, when you started putting a pencil to an income of $15,600 you found that you just couldn't make the mortgage payment at that. So, now we're looking at a situation where those income limits have been raised quite a bit. We just didn't have the demand for those loans. And the reason for that——

Senator SCHMITT. The housing is expensive, right?

Mr. HUDSON. You bet, it's very expensive.

Senator SCHMITT. Is that the wrong target? I mean, should we rather be using the same resources to rehabilitate existing housing rather than build expensive housing that nobody can afford?

Mr. HUDSON. Well, let me just talk for a minute about our 504 program, because we do have a loan program at 1 percent for housing rehabilitation. Unfortunately, as you know, we turned money back in to the 504 loan program last year. That was not untypical of other States around the country. I am informed that most States did not use all of their rehab money, the 1 percent money. That money is targeted, really, to very low income people, because we have a 502 rehab program also for low-income people. But if we're talking about very low income people, which is what the 504 program is aimed at, you have a situation where we're asking very low income people, many elderly, to do some things that maybe they find it a little bit difficult to do—they have to go out and solicit bids to get their property repaired, they then have to make some judgments as to which bid to select—and the population we serve is maybe not that willing and able to do those kinds of things. Where the 504 program has worked well there has primarily been a packager involved of some kind, some outside agency, maybe Neighborhood Housing Services, that works with those very low income people that helps them to get the bids, helps them find contractors, and so forth. But we've even run into problems in those situations in New Mexico where they have gotten out of hand because the whole program wasn't under the control of FmHA. So, that's a rather complicated question, also.

Senator SCHMITT. It's a complicated question, but it's complications that every State has been faced with. And by any measure that we've been able to find, New Mexico's productivity level is atrocious compared to other States that have the same programs, and the surrounding States which have less of a rural housing problem than New Mexico. Can you give us any insight into that? For example, the neighboring States of Utah, Arizona, and Colorado have 80, 83, and 100 employees, respectively, but their total program activity far surpasses that of New Mexico. Why is that? New Mexico has—what—127 employees involved in those programs?

Mr. HUDSON. Pretty close. I think we have some offices which are overstaffed, we have some offices which are critically understaffed. We are in the process of a reorganization that I think is going to move our people resources to where we can be more productive and more efficient. I would anticipate that that would be implemented sometime this spring. We're moving to take care of those kinds of problems.

Senator SCHMITT. Is there a tendency for the staff to focus more on the other Farmers Home Administration activities—that is, activities other than those related to housing—is there a greater interest among the staff in that? Is there a greater demand, is that the squeaky wheel?

Mr. HUDSON. Well, it's true that most of our county supervisors have degrees in agriculture. The administrator, Mr. Charles Schumann, has decreed that the farmers program will have No. 1 priority this year. We are a part of the Department of Agriculture. We will make some moves to try to take care of some problems in the farmer program area, but I don't think that most county offices would slight the rural housing program, I don't think that would be a fair statement.

Senator SCHMITT. Well, they are very busy, we've looked into the workload the individual supervisor has and it's unbelievable if they try to do their job. And I'm not saying that most of them are not trying to do their job, but I find it a little hard to see how you can set priorities between two mandates of Congress administratively, it seems that you've got to balance program activity in housing with the other activities of the Farmers Home Administration. Just because you are a part of the Department of Agriculture doesn't mean you don't have a mandate by law to serve rural housing programs, that's where it came from, there is no other program that does that.

Mr. HUDSON. I agree with you.

Senator SCHMITT. Have you made any projections on how much efficiency will be gained by the reorganization?

Mr. HUDSON. Well, of course, that's very difficult to assess, but I do know in some offices where we've made some preliminary moves that we're doing much better than we were, we've got delinquencies coming down. As you know, the emphasis in the Farmers Home Administration has been for many years to make loans, and people were judged on how many loans they made, not whether they were good loans or bad loans but how many they made. Our emphasis has been on trying to help the truly needy. People who can help themselves, we view ourselves as a temporary source of credit. We want people on these heavily subsidized programs to graduate off of them and reduce the subsidy. We've got areas where we've moved people into offices that have been traditionally short staffed; we can see delinquency rates coming down, we can see processing times coming down. One of the things that's been very hard for me to accept personally is the amount of time it takes to process some of these loans. I think it's unreasonable to say to someone they should wait for 3 or 4 months or 5 months before they get an answer, so we're working on trying to bring the processing times down. And we're starting to see some improvement.

Senator SCHMITT. Is this processing time the result of legislative mandate or administrative regulations?

Mr. HUDSON. It's an administrative problem, in my opinion, lack of people in the right places at the right time.

Senator SCHMITT. What is the average cost of a new home built under the 502 program in New Mexico, Jim?

Mr. HUDSON. Well, of a new home it runs a little over $38,000. If you're talking an existing home, I think the number is about $31,000.

Senator SCHMITT. Then with those figures, what is the lowest income that a homeowner could earn in order for him to make his payments required under 502?

Mr. HUDSON. Well, I'd have to get out my little book and figure it, but if I remember right, 1 percent, which is the maximum that we can subsidize down to, the monthly payment is about $2.12 per $1,000, so on a $40,000 it's about an $80 payment. You can see the income can go quite low. Our procedures ask that the homeowner pay 20 percent of his income for house payment, insurance, and taxes—only 20 percent. And so if one just assumed $125, you can see that roughly at $6,000 you can afford a house under our program.

Senator SCHMITT. But in that kind of situation it's really practically a lottery, isn't it?

Mr. HUDSON. It's practically a lottery, although we attempt to take people on a first-come, first-serve. There are some exceptions.

Senator SCHMITT. Is there a line outside each county office?

Mr. HUDSON. There is a line outside each county office, yes, sir.

Senator SCHMITT. Do you think people are generally aware of the availability of these loans, those that could make use of them?

Mr. HUDSON. Right now we have roughly 450 applications on hand in our county offices. If we were to process all 450 of those loans tomorrow, we would essentially use our yearly allocation of dollars, what we have left this year.

Senator SCHMITT. Do you personally believe that this is a good allocation of Federal resources to concentrate on construction of new housing that meets certain minimum standards that causes it to be quite expensive, as you have indicated, where the same money could be distributed more broadly and rehabilitation at a lower standard and still provide people with a factor of two or three improvements in the present standard of living?

EMPHASIS ON REHAB-TYPE LOANS

Mr. HUDSON. I am personally in favor of FmHA of New Mexico putting more emphasis on rehab-type loans. I do believe that in many parts of New Mexico Farmers Home Administration has been the provider of housing, we've provided housing to a lot of people. As you know, we have roughly a 7,000 caseload right now.

Let me try to explain real quickly what the problem is with rehab. If you look at 502 loans and the 502 rehab program—my view—what we have in the county office is a very limited amount of dollars, OK? Now, you can use those dollars, it seems to me, to do rehab work—some of them, anyway—or you can process loans for houses, per se, someone to buy a house. If you are in a county office where the workload is over your head—OK?—and you are trying to get as much done as possible, the most efficient way to use that money for the county offices is to make a new loan rather than to process four or five or six rehab loans, right? The other thing that happens is that in New Mexico——

Senator SCHMITT. That's from the office's perspective?

Mr. HUDSON. Yes.

Senator SCHMITT. From the perspective of the using community that is the least efficient.

Mr. HUDSON. I understand that, and I agree with you. The other thing that is happening in New Mexico, because of the Senate hearings into our rehab program in New Mexico, we have some people in county offices that are a little bit reluctant to get involved, to be quite honest. We would wind up with a very bad situation, as you know, in our rehab program, and all county offices were aware of that situation, they don't want to get into a similar situation, and so that has affected our rehab program in my view. We're working to turn that around.

Senator SCHMITT. Well, I certainly hope you are because it is certainly not the fault of the program that the situation developed——

Mr. HUDSON. Yes, sir.

Senator SCHMITT [continuing]. And where the abuses were pointed out, the people who were involved in administering the program are the ones that allowed that to happen.

Mr. HUDSON. Yes, sir.

Senator SCHMITT. Now, maybe we need to tighten up the law, because there is no question, I think, where the blame resides, primarily.

Do you think that the program should concentrate on the most rural counties?

Mr. HUDSON. Yes, sir.

Senator SCHMITT. Should there be a sharp distinction, say, between a county like Bernalillo and maybe even Las Cruces and environs relative to areas where the level of eligibility is much higher?

Mr. HUDSON. Yes, sir.

Senator SCHMITT. How do you do that if people are still eligible?

Mr. HUDSON. Well, we can do it, obviously, by allocating money. Now, there's a problem with that.

Senator SCHMITT. You have the discretion to allocate money to individual offices?

Mr. HUDSON. Yes, sir. And, in fact, we're moving to curtail allocations to some counties where we have extremely high delinquency rates to force those offices to work more closely with farmowners to get those kinds of problems taken care of. But let me explain the way I see the problem of allocation. Once you run into this, what you would like to do, obviously, is put the money where there is the greatest need that's what you would like to do. That's a lot harder to figure out than one might guess. According to the definition of substandard, it's a house that lacks some amount of plumbing. Well, if that's all there is to it, we ought to just go in there and make a plumbing loan and fix up the house and we would be out of the woods, right? But the problem is that it's much more difficult to define where substandard housing really is, where the houses are falling apart, et cetera, that data is not relatively available. We are waiting on some data from the Census Department which we hope will help us with things like defining overcrowded housing.

VACANCY RATES

If one looks, though, at what data we have, you find—for instance, if you selected a county where you'd guess that there was a lot of substandard housing then you said, OK, we need to go in there and try to do something about that problem, either rehab, build new houses or something. OK, what you also find in New Mexico is that many of those counties have very high delinquency rates in rental housing, which seems to say that there is housing available. So you have, No. 1, the problem of trying to define where the substandard housing is. The data is not relatively available. And you have, No. 2, a problem with high vacancy rates in rural rental projects.

I have some data from a 1980 census, and just to pick a county—and I notice that New Mexico looks rather odd compared to some of the other States, but let me see here.

Senator SCHMITT. While you're looking. You are convincing me more and more that we shouldn't build new houses, that we ought to concentrate on rehab and on utilizing existing rental units, that a small subsidy could provide an opportunity to a needy family to move. Anyway, go ahead with your point.

Mr. HUDSON. Well, I was just going to look at some of these vacancy rates and rental projects according to 1980 census. You run into numbers like 22 percent, 15 percent, 18 percent, 15, 13, 13, 25, 10, 12, 15, 17, all very high vacancy rates. And, in fact, in only about four counties in New Mexico, one, two, three, four, five counties in New Mexico is the vacancy rate less than 10 percent.

Senator SCHMITT. What is this, now?

Mr. HUDSON. This is the vacancy rate on rental housing by county.

Senator SCHMITT. Overall?

Mr. HUDSON. Overall. Rental property vacancy rates

Senator SCHMITT. What about vacancy rate in the 515 project?

Mr. HUDSON. In our 515 projects we have some problem areas, some real problem areas where we have high vacancy rates. We have other areas where our projects are full. I have that data exactly if you need it.

Senator SCHMITT. We would like that for the record, Jim, if you could give it to us.

Mr. HUDSON. OK, I have that.

Senator SCHMITT. Can you explain why, when there is availability of a $4,000 a year subsidy, that there would be any vacancy rates?

Mr. HUDSON. Well, our vacancy rates aren't in the subsidized units. All of our units are not subsidized in rural rental. In other words, we are limited to 70 percent rental assistance in a project, which means 30 percent of those units are not subsidized. We get in trouble on the unsubsidized units because the rent is too high for people to afford. Farmers Home Administration this year, in their allocation of rental assistance to the States, has said, "You'll not use rental assistance in new projects, you will use the rental assistance in new projects, that are in trouble with high vacancy rates, etc.

Senator SCHMITT. But overall we've set certain standards such that the cost, the rental cost is so high that it's either costing the Government a great deal or it's unaffordable to the individual?

Mr. HUDSON. Well, I don't understand why the costs in New Mexico have been quite as high as they have been, quite honestly. I think in some cases we have built multifamily projects in the past that have been a little more expensive than they should be. We are looking at all avenues of cost curtailment to hold the cost of the individual unit down so that more people can afford to rent them.

Senator SCHMITT. Yes, but if we went to the existing units as you pointed out were subsidized, people just going into existing units, and you pointed out the high vacancy rates that exist everywhere but I guess around Silver City right now, we would get far more people served than what we are doing by building subsidized housing; isn't that true?

Mr. HUDSON. I don't think there's any doubt about it, if we took the same amount of dollars, in the rehab work we could serve more families.

Senator SCHMITT. Or even just the same amount of dollars and subsidize going into existing rentals?

Mr. HUDSON. It's possible. I'd have to think about that a little bit.

Senator SCHMITT. I hope you will, and give us some background on it. And also whether or not you feel that the legislation prohibits you from that kind of emphasis.

Mr. HUDSON. We can't give subsidies like rental assistance to a project that's not financed by Farmers Home Administration.

Senator SCHMITT. You think you ought to be able to; would that simplify matters?

Mr. HUDSON. I really don't have an opinion on that. I haven't thought that much about it. I suppose that's for someone else to decide.

Senator SCHMITT. Have you had any thought, Jim, about voucher systems, whether or not they would work or not work in New Mexico?

Mr. HUDSON. Pardon me?

Senator SCHMITT. Voucher systems. Have you thought about that or been asked to think about it relative to the New Mexico situation?

Mr. HUDSON. Not really, to be honest.

Senator SCHMITT. What about the difference between counties that are declining versus those that are growing; should we make any distinction in Farmers Home housing programs?

Mr. HUDSON. I personally think that we should.

Senator SCHMITT. So you would say that obviously Bernalillo County or Dona Ana County are growing counties that are economically stronger than Mora or San Miguel, and we should consider focus on the counties that are, in fact, losing population and have not been able to break through on any kind of significant economic development?

CONTRACTING PROGRAMS

Mr. HUDSON. In consideration of Bernalillo and Dona Ana versus Mora or some other county like that, I think we in the Farmers Home have an obligation to get back to the rural areas and away from the urban areas. But there's a huge problem, and the problem is that in the urban areas you have builders, developers, people ready to deliver housing; you get out in the very rural areas and you don't have the kinds of builders, contractors, architects, developers ready and willing to provide housing and it's a more difficult situation. Even on rehab it's a more difficult situation, to try to find a licensed contractor, for instance, to rehabilitate a house in a very rural area is sometimes not very easy.

Senator SCHMITT. Why is there a significant number of out-of-State contractors that end up getting the bids or getting the work in New Mexico for Farmers Home activity; do they just know more about it?

Mr. HUDSON. I think the distinction needs to be drawn between owners and contractors. I think you'll find that on most of our programs the contracting is actually done by New Mexico people even if the ownership was from out of State. And I can run through all of our projects and give you information if you would like it. In fact, when we have an out-of-State owner—and I've asked this question of people on my staff—I've asked, Why don't we have more New Mexico people involved in our rural rental program, for instance? I've been told that it has to do with the difficulty of putting a package together, we have some people in New Mexico that know how to submit the applications, do all the paperwork, and so forth and so on, and they seem to do a good job, but there aren't, really, large numbers of those kinds of people. When we have out-of-State owners, in most cases we find in-State contractors, in-State labor to build the projects. I have some data on that if you would like it.

Senator SCHMITT. Yes, we would like any information you have for our record.

Mr. HUDSON. If I can just run down—and I can do this very quickly—owners of our projects: in State, in State, in State, in State, out of State, out of State, out of State, in State, out of State. I have not figured out the percentage, but I would say that probably 75 percent are in-State owners, or somewhere between 50 and 75 percent. But in the builder situation, the contractor situation, there are only three, four, five, six, seven of our projects—eight of our projects were built by out-of-State contractors, and even in those situations it was usually a community which was close to a neighboring

State and the contractor happened to come from out of State, but the labor that was used was almost entirely local labor.

Senator SCHMITT. Our data indicates that in Bernalillo County 20 percent of the builders were out-of-State, which is exactly the county where you would think it would be the lowest.

Mr. HUDSON. The builder was out-of-State? You mean the owner as opposed to the builder? I would guess that what you mean is the owner rather than the builder.

Senator SCHMITT. You may be right. In fact, we'll have to check that out, the data that I have says builders.

Mr. HUDSON. Let me see here real quick.

Senator SCHMITT. Anyway, let's don't bog down on that, we'll pursue that a little bit more with you separately. But you would generally agree that we ought to be able to carry out the programs that we have and improve them even with the use of in-State owners and contractors and builders?

Mr. HUDSON. I would agree with that, and I would say that that is partly FmHA's fault in that we need to work more closely with potential applicants to assist them in preparation of the documents that we need, the surveys we need, and so forth, and we will move to do that. Now, let me say one thing. When I assumed the State director's position in New Mexico, there was an in-State rule, we had a rule, if you will, that all projects would go only to in-State owners, OK? Well, that doesn't make any sense to me if we're not putting enough projects together to meet the needs of the rural community, so, quite frankly, I struck that rule. No. 1, I doubt if it's legal, and I doubt if the national office would support that kind of a view. But that was the policy in New Mexico, was to limit projects to small projects, in-State owners. And I didn't think that was proper, because I think you've got to meet the need first. So, if you have to deal with an out-of-State owner——

Senator SCHMITT. Yes, but there is no evidence that we have saturated the capacity of New Mexico ownership in contracts to satisfy New Mexico needs——

Mr. HUDSON. No, sir.

Senator SCHMITT [continuing]. Because we're obviously not satisfying our needs.

Mr. HUDSON. I feel we need to do a better job about which to talk to people.

MOBILE HOMES

Senator SCHMITT. Mobile homes, why shouldn't mobile homes be used rather than new construction?

Mr. HUDSON. Since I knew that question was coming up, I have a little statement and I would like to read first and then kind of go from there. If you will permit me just a minute to get my things straight here, because there are some technical questions that are involved. And I'm just going to read parts of it—OK?—because I know that you don't have time. FmHA presently loans on manufacturer's housing units constructed to meet HUD's minimum property standards plus FmHA thermal standards. FmHA presently has no programs to finance manufactured housing units built to comply with the Department of Housing and Urban Development Mobile Home Construction and Safety Standards. We do have authority to do that. FmHA has not implemented a program to finance mobile homes because the agency has had other programs and problems which require first attention and caused the decision to be made to defer work on mobile home lending regulations. Furthermore, should such regulations be developed, the present law provides that loans for the purchase of mobile homes and sites be made on the same terms and conditions as HUD. Interest credit would not be available on such loans.

On October 21, 1980, FmHA published in the Federal Register an advanced notice of proposed rulemaking on mobile homes. In response to that notice FmHA received comments from 45 respondents expressing opposition to such a program and 24 respondents supporting it. Due to the number of respondents against the implementation of the program and because of the impact upon the agency in implementing and administering an additional program, FmHA believes the loan program should not be implemented at this time. If such a program were to be implemented, FmHA would be required to offer the same rates and terms as offered by HUD. Since HUD has an active program, there is a Government-insured source of credit for such units.

Senator SCHMITT. HUD, as I understand it, just announced that they are moving forward in FHA loans for mobile homes, Fannie Mae and Ginnie Mae both purchase mobile home paper on the secondary market, so am I to interpret that since these things are going on that you see no need for Farmers Home to get into the business?

Mr. HUDSON. I think that Farmers Home feels that because of the many programs we have, because of some existing problems, revisions that are necessary, that at the present time, on the priority scale, there are other things that have higher priorities.

Senator SCHMITT. Why can't it just be an ordinary house, what is so different?

Mr. HUDSON. Well, some of the things that are different are the terms that are offered, and in most cases the terms offered on mobile homes are not the same. Interest credit we would not be allowed to use under the regulations, the way we understand them. In New Mexico, of course, that's been——

Senator SCHMITT. Then we ought to change those regulations.

Mr. HUDSON [continuing]. Our primary program, the subsidized housing. Now, with the income limits changing, that can have a very profound impact on our program. In the past people couldn't afford these 13¼-percent loans, because by definition we were limited to people who made less than $15,600 a year. However, that number has been increased considerably.

Senator SCHMITT. Well, mobile homes come more cheaply than that.

Mr. HUDSON. Yes, sir.

Senator SCHMITT. It sounds like the Farmers Home Administration needs to take a hard look at this one. I guess they've been studying it since 1976 or so?

Mr. HUDSON. For a long time. It's a thing that keeps coming up.

Senator SCHMITT. The rest of the Government's—at least the HUD programs—are moving toward increased emphasis of manufactured homes and mobile homes.

Mr. HUDSON. Yes, sir.

Senator SCHMITT. It sounds like Farmers Home is not moving nearly as rapidly in that direction. And in a State like New Mexico where, when you do get growth, it's usually pretty rapid in an area, it would seem that Farmers Home might be able to help out on a temporary basis in those situations. Now, is it your position that the HUD program can serve the needs of New Mexico in this area?

Mr. HUDSON. I really can't answer that.

Senator SCHMITT. Let's talk a little bit about credit in rural areas, and then we're going to have to move on to our panel. In your statement you implied that credit was not available to rural areas, and the poor families that it serves, because it cannot afford the loans that are available to the private lenders. Is that an accurate restatement of your position?

Mr. HUDSON. Well, I think in the 13 counties that I mentioned, there just isn't any credit for anybody. In most of the other counties there isn't any credit for the people that we are serving.

Senator SCHMITT. But you say, then, in the 13 counties there are just no loans are possible to anybody no matter what their income level is?

Mr. HUDSON. That's what I'm told by my county offices, that there are no lenders out there for housing but Farmers Home Administration, outside the urban areas I'm talking about.

Senator SCHMITT. Well, we'll see what our panel thinks about that.

Mr. HUDSON. I'm talking outside the urbanized areas. In other words, some of those counties have larger urban centers and money is available there, once you get outside the urban center money is not available, credit is not available.

Senator SCHMITT. We'll explore that with the people who are in the business of providing credit. You say that Farmers Home funded six apartment projects last year. How many units were built, total, in those six?

Mr. HUDSON. I'll have to look here and do some adding.

Senator SCHMITT. Well, maybe you can supply that for the record, Jim?

Mr. HUDSON. I will.

Senator SCHMITT. And, also, what is the range of incomes in each of those projects?

Mr. HUDSON. I will provide a written answer.

Senator SCHMITT. That leads back to my concern that we are serving the highest income of the people who are eligible rather than those who are most in need.

Mr. HUDSON. Last year we did return a considerable amount of money in multifamily. I don't have a good reason for that except that we just didn't have the applications ready to go that we needed. Some of that may have been our fault.

Senator SCHMITT. Do you think the thermal standards that you have are appropriate to all areas of the State, or should there be some latitude in setting of those standards?

STANDARDS WITH FLEXIBILITY

Mr. HUDSON. Well, we do have some latitude, Mr. Chairman. Basically, we're divided into zones by winter-degree days and our standards are varied accordingly; where the number of winter-degree days exceeds 4,500, we have to go into more restringent requirements. Now, I think—and this is just a guess on my part, but I believe that in some cases there's been a little misunderstanding about what the standards actually require. Our standards have a considerable amount of flexibility built in. There are basically three methods to use to determine whether the design is acceptable or not. I think in many cases we have focused on one of the standards only, but there are options built into our standards to look at other designs. People might tell you that triple-glazed windows were required. They are only required under one of the options for evaluating the design, under the other options they may or may not be required depending upon the design of the house.

Senator SCHMITT. Do you think that your supervisors have the background and experience to make those decisions, do they require an engineer's certification or what?

Mr. HUDSON. We have engineers available to work on this, but most architects who are designing these houses are familiar with the other standards. I think in some cases an individual homeowner who is going to get a contract to build a house may not be aware of all the variations that are possible, but the flexibility is built into our procedure.

Senator SCHMITT. Jim, I appreciate your testimony. I am not very comfortable with, certainly, the past history and productivity, in particular, as well as the breadth of the community that has been served by the Farmers Home Administration. I have the distinct impression you are not comfortable with it, either, and I wish you well on your administrative changes. We will be examining your prepared testimony, as well as other information to see if there is anything that we have to do legislatively to give you increased flexibility or, maybe in some cases, reduce the flexibility so that the efficiency of the delivery of services can go up. But, again, I feel that we are not yet, in New Mexico, serving the numbers of people who are in the greatest need for assistance that we should be serving and, in particular, we seem to be using so much of our resources for relatively high-cost housing, both constructed and rental.

Mr. HUDSON. Senator, I'll be happy, and my staff will be happy, to work with you and your staff in providing any information that we can to assist you. Thank you very much.

Senator SCHMITT. Thank you, Jim.

Our first panel will be Mr. William R. Britton, president of Mutual Building & Loan Association of Las Cruces; Mr. Raymond D. Chavez, president and chief executive officer of Sun Country Savings & Loan, Las Cruces; Mr. Robert Wertheim, chairman of the board, Southwest Mortgage Co. Please come forward, gentlemen. And Mr. John J. Deisher, regional vice president, Southwest regional office, Federal National Mortgage Association, Fannie Mae. Are we missing somebody? Where is Ray Chavez? Anybody seen him this morning?

If we could have each of you read your statements, then I will ask questions and let each of you comment as appropriate on those questions. Mr. Britton?

STATEMENT OF WILLIAM R. BRITTON, PRESIDENT, MUTUAL BUILDING & LOAN ASSOCIATION, LAS CRUCES, N. MEX.

Mr. Britton. Thank you, Senator Schmitt. In response to your correspondence and the request of the Senate subcommittee, I have broken my statement down into five or six questions that were asked of us, or asked of me, specifically.

Senator Schmitt. Excuse me. So I can better evaluate your testimony, let me ask you one question. Is it your feeling that you concur with Mr. Hudson that in 13 counties, I think he said, that there is no credit available of any kind? What's your feeling about that?

NO GEOGRAPHICAL LIMITATIONS

Mr. Britton. I heard that comment. My question was, I guess I needed to know where the counties were. In dealing with where savings and loan associations in the State are located, I was trying to recall what areas didn't have a savings and loan located in it, and possibly in the far northern counties or Hidalgo County, I cant' recall a savings and loan located in that county, but other than that, most areas that I'm familiar with, which is primarily southern New Mexico, are well served. I have had previous experience in the early 1970's, I lived in Lincoln County, and we worked in Otero and areas around Artesia and Hobbs and Carlsbad, and we did a lot of rural lending.

Senator Schmitt. But you know of no county where your institution would automatically have reservations or actual rejection of a loan just because of its location?

Mr. Britton. Not just because of its location, no. I think practically, though, we would have to look at our ability to serve after we initiated the loan to serve it and review the property, pay the taxes, that type of thing, so I am sure there are some counties in this State——

Senator Schmitt. So there is a geographical limit as to how far an institution can serve away from its home base?

Mr. Britton. Not anymore. There used to be, we used to have a 100-mile limitation.

Senator Schmitt. No; I mean there is a practical limit, not a guideline or anything?

Mr. Britton. No.

Senator Schmitt. Would you, Mr. Wertheim, feel about the same on this?

Mr. Wertheim. Mr. Chairman, in my formal testimony, no, I don't. As a matter of fact, Southwest Mortgage Co., which is a mortgage banking company, has made loans in every county in the State of New Mexico except five—four, I believe four counties.

Senator Schmitt. Are they randomly distributed counties?

STATEMENT OF ROBERT WERTHEIM, CHAIRMAN OF THE BOARD, SOUTHWEST MORTGAGE CO., ALBUQUERQUE, N. MEX.

Mr. Wertheim. Well, there are a couple of reasons for this. One sounds corny, but it's a fact. I'm from a small town in New Mexico, and some of the things that the State director said is certainly true, the availability of resources in these counties are not the same—that is, the contractor and so forth—and particularly during the New Mexico Mortgage Finance Authority program where you had this below-interest-rate money. We made a very strong effort to make loans in every county in the State of New Mexico, and some of the counties that we didn't succeed in, Mora Harding, we didn't make a loan in Roosevelt County because there was a savings and loan and a bank there that was servicing it, and for whatever reason we didn't make a loan in Sierra. Now, we have offices in Farmington, Santa Fe, Albuquerque, Las Cruces, and Hobbs. And we are only in the loan business, we are not in the savings business, so the only way we make money is to make loans and to service those loans, and so we make a very strong effort to do that, we have a program set up—there's not a loan in the State of New Mexico, if it's creditworthy and if it's safe and sanitary housing and the people can afford it, that we would not be available to make a loan.

It might be interesting to you, a personal consideration that's close. I've been in this business in New Mexico since 1958. I was away for about 10 years in Minnesota and Alabama, and I'll never forget the first time I went to Minneapolis, Minn. This company had lost $1½ million that year when I went in there and were not making any loans, had about 13 people standing around there. So, the first thing that came to my desk was a letter of reject so that somebody could get a direct VA loan. It happens it was 15 miles outside of Minneapolis, metropolitan area. And I went out there and I said, "Boy, that's better than any community I'm used to serving in New Mexico". And I cited an example: One time I drove from Albuquerque to Bayard, N. Mex., to take an application—that was 1959 or so. And that sort of philosophy is what prevails in the mortgage banking industry. So, I think that one of the things—and it's not an easy thing, as Mr. Hudson was saying—one of the things is that there is a tendency to provide, say, this strongly subsidized Farmers Home Administration money to the urban areas—in New Mexico urban meaning eve, say, within the city limits of Silver City or right outside the city limits of Las Cruces, or in Alamogordo. And in DeBaca County I've actually called a friend over there, who is in the real estate business, he said that he had made one Farmers Home Administration loan. Those counties are poor, there's a real problem, and so the delivery system is the problem, it's not a problem of there not being a private lender there. We really push. I have people out on the road trying to make loans.

Senator SCHMITT. Well, let's proceed more formally, then, and, Mr. Britton, if you would present your statement?

Mr. BRITTON. OK, the first question that was asked me: Is credit available in rural areas?

In my opinion, the credit was available in rural areas in New Mexico, as far as Mutual Building & Loan is concerned—that's Dona Ana and Sierra Counties. As a regulated lender, we are bound by the requirements of the Community Reinvestment Act, the Equal Credit Opportunity Act, coupled with the regulations set forth by the Federal National Mortgage Association and the Federal Home Loan Mortgage Corporation. Our underwriting criteria provide that there is no discrimination between the urban and rural areas. We stand ready to provide credit in the rural areas providing the prospective borrower can meet our underwriting criteria. In my opinion, this is the case for all regulated lenders.

Is the cost of credit comparable to that available in urban areas?

CREDIT IS COMPARABLE AND AVAILABLE

In my opinion, the cost of credit is comparable and available in rural and urban areas. Unfortunately, we are talking about high costs in both areas, and we have found that recently this has prohibited the availability of credit in both rural and urban situations. In my opinion, the lenders in this area are very receptive to making loans in rural areas and have not penalized the borrowers through higher costs.

Are secondary financing markets willing to purchase rural home loans?

We have found that our primary source of secondary financing, the Federal Home Loan Mortgage Corporation and the Federal National Mortgage Association, have been very helpful in the purchasing of loans from our association on rural home loans. In the 10 years that I have been selling loans to these entities, I have found that they have attempted to understand our particular area and have adjusted their concept of acceptability accordingly. This is done primarily by visits of the underwriters to our area and tours of the type of property containing mortgages we are proposing to sell them.

We have found special problems in the area of proper access to the property. As long as the property is located on a maintained county road, we have had no problems. If we are dealing with a dedicated easement, especially a long dedicated easement, they have been very sensitive to the maintenance of this easement. We have found some reluctance on their part to buy loans where the maintenance of the easement is not defined.

Senator SCHMITT. Why is the easement so critical, the maintenance of the easement?

Mr. BRITTON. We find that areas, especially in the Mesilla Valley that comes to mind first, if an individual is taking a piece of property that's off of a county road—conceivably it would be a half mile, a mile away from the road—and has filed and secured an easement from an individual that his property is between his and the county road, if he puts in a gravel road or something like that and it's not a defined road with a defined maintenance program, there has been some reluctance to purchase property.

Senator SCHMITT. Well, I understand there's been reluctance, but does that have anything to do with whether the loan is a good risk or not?

Mr. BRITTON. We don't think so. Most of the instances that we're aware of, our commitments to sell them loans have been done after the fact; by that, we made the loan and then we go out and try to do something with it. And in those cases, those loans that I'm aware of, we have kept the loans in our own portfolio and service on them has not been any more difficult or a standard service has not been a problem.

Senator SCHMITT. I'm a little concerned. My home in Silver City is off a county road about a half mile and we maintain easement. Does that mean I would be less eligible for credit than somebody who lives right down next to the county road?

Mr. BRITTON. Conceivably, our experience is that that has been the case. At that point, since we are in the business of savings, we've taken the policy that we'll go ahead and make the loan and we maintain our own portfolio, but we will have difficulty trying to sell that on secondary mortgage.

Senator SCHMITT. Well, that's a fairly typical case in rural New Mexico, to be away from a county road where you live, and so if other institutions were applying that as a criterion that could be a fairly important filter through which a lot of people would not have passed.

Mr. BRITTON. We've found that to be the case. I might mention that we are dealing, through the survey of our recent origination in the last 2 or 3 years, under the Home Mortgage Disclosure Act what we have to define as rule, about 20 percent of our loans have been made in rural areas. But I think that is a liberal interpretation, we could be talking about 5 miles north of Las Cruces.

Senator SCHMITT. Please proceed.

FMHA PROGRAM VIRTUALLY UNUSED

Mr. BRITTON. Why is the Farmers Home Administration loan guarantee program virtually unused?

We are not aware of the volume of loans or dollars processed or completed by the Farmers Home Administration. We do know that we receive requests from people who have applied to the Farmers Home Administration at the rate of five or six per month. In most of these cases, they have applied for a 100-percent loan based on a loan to value or a sales price. It is our understanding that in order for them to qualify for this type of loan they must have a declination by at least two regular lenders in the area. We are prohibited by regulation from issuing any 100-percent loans, and therefore we have been obliged to issue this declination.

In the past, we have also understood the Farmers Home Administration has been providing loans at rates below that which we have been able to issue. This was another avenue in which to decline a prospective borrower, because in some cases, he has been unable to qualify at our rates but would be able to qualify under the Farmers Home Administration program.

As you know, our rates have been set by a combination of factors, such as our present cost of money and what we must pay in order to gain sufficient capital to make loans plus the market rates set by the secondary market.

Senator SCHMITT. Excuse me. Do you see a reluctance in the secondary market to purchase rural loans?

Mr. BRITTON. No, sir, not as a whole. I think that case could have been argued 10 years ago, but as we saw growth in our area and we began to sell loans to the secondary market, they made an effort to come out and to review our situation and see where the properties are located and then to gain knowledge, because so much of our area was rural, and after their underwriters had toured the kind of loans we proposed to sell, we haven't had any problem with that.

Senator SCHMITT. Including nonmaintained easements or county-maintained easements?

Mr. BRITTON. Well, we get into discussions on those from time to time. We haven't sold many of them recently.

Senator SCHMITT. I'm very concerned about that because I may not be able to get a loan on my property when I need it.

Mr. BRITTON. Come see me, Senator, and I'll take care of it. [Laughter.]

Senator SCHMITT. Well, but I just want to be sure that anybody that has a reasonable easement, whether it be county or otherwise, can come to you and talk to you about an otherwise creditworthy loan.

Mr. BRITTON. If the area is a developed area or there is a developer involved, or whatever, we have provided them assurances on occasions where we could that those roads would be maintained or that we felt the borrower would maintain his easement.

Senator SCHMITT. Well, I'm very sensitive to this. I've spent the better part of my 47 years maintaining that easement, and I didn't know that I was in danger of not being able to get credit if I needed it.

Mr. BRITTON. That was just one area that we've had questions. Not to belabor it, but I think that——

Senator SCHMITT. I mean, personally maintained it.

Mr. BRITTON. Yes. But I think they've made a concentrated effort to understand how our properties are located in this area, and all in all, we've had very good luck in selling them loans, whether it's rural or urban.

Senator SCHMITT. OK; please go ahead.

Mr. BRITTON. Why is FHA insurance not widely utilized in rural areas?

We have not been a large issuer of FHA-insured loans and therefore we would not be able to answer this question.

Senator SCHMITT. Is there a reason?

Mr. BRITTON. I think two. I have been with the association for 4 years, and my understanding on the timeframe prior to that, that there was a reluctance on the part of builders and developers to either build their houses to FHA standards or subject to FHA review, or the subdivisions had not been submitted for FHA approval, and we, the association, didn't find the need to issue those type of loans.

In the recent past we've been more prohibited by the market than by reluctance to FHA insurance. If we're going to sell loans in the secondary market, the primary source of FHA origination has been through the Ginnie Mae bond program, and we haven't found a volume sufficient enough to consolidate those and market them through a bond. We stand ready to take applications, but we have not been competitive, I think, in the rate situation because the requirements that the bond market has set. Our volume hasn't been sufficient to support it, really.

Senator SCHMITT. So if Ginnie Mae disappeared you wouldn't notice that disappearance?

Mr. BRITTON. Yes, I would notice that disappearance. I wouldn't like to see that happen.

Senator SCHMITT. But as far as your own association's activities, it's not tied significantly?

Mr. BRITTON. No, we're not tied significantly, we've been primarily an issuer of conventional mortgages.

Senator SCHMITT. Please continue.

Mr. BRITTON. How can we increase the role of the private sector in rural mortgage lending?

In this regard, we do not feel the answer is the ability to increase lending in the rural area. As a lender, we stand ready to make mortgage loans in a rural or urban setting. However, if you do want to increase loans in the rural area one of your steps will be to make the savings and loan industry, the primary mortgage source in the country, a more viable industry. Our ability to secure funds in the capital market in the past 3 years has been hampered by our inability to pay or afford present rate requirements.

Therefore, we have had to look to the secondary mortgage market as a source of mortgage loan funds in order to provide substantial financing in this area. In reviewing the market as a whole, we have found that this has reduced our volume substantially primarily because the rates we have had to charge. Not to belabor the point, but the future ability of the primary mortgage lenders, such as savings and loans, is going to be hampered unless you provide an avenue in which they can secure the necessary private capital at a price that the borrower can afford.

In closing comments: Interest rates are certainly a major qualifying point of the ability of the borrower to secure mortgage funds whether he is in a rural or urban location. I do not believe the availability of the mortgage money is the problem in this area. Any program developed for this area specifically should be very sensitive to the cost to the borrower.

I appreciate the opportunity to address you.

Senator SCHMITT. Now, Mr. Wertheim, would you proceed, please?

Mr. Wertheim, Mr. Chairman, I appreciate the opportunity to appear. I am chairman and chief executive officer of Southwest Mortgage Co. Our company makes permanent mortgage loans on single family, multifamily, and commercial real estate in the State of New Mexico. This includes FHA-insured, VA-guaranteed, and conventional home loans as well as loans to finance income and commercial-type properties. The company has offices in Albuquerque, Farmington, Hobbs, Las Cruces, and Santa Fe. Southwest Mortgage, on January 1, 1982, was administering a portfolio secured by New Mexico properties in excess of $235 million, 5,466 units. The company is an approved lender for the business and industry section of the Farmers Home Administration [FmHA] and while this does not relate specifically to that, we have participated and have closed four loans totaling $6,350,000. As a mortgage banker, Southwest Mortgage Co. purchases mortgage loans which it resells to institutional investors in the secondary market. The company has issued 61 Ginnie Mae mortgage-backed securities and with this vehicle, has sold $76,900,000 of residential home loans all of which were insured or guaranteed by the Federal Housing Administration [FHA] or the Veterans' Administration and then subsequently by Ginnie Mae.

I would say that in the last 3 years in New Mexico, had the Ginnie Mae vehicle not been available, that the depression that presently exists in the building industry would have been much more severe. The company has not issued any conventional mortgage-backed securities. I don't think it's just Southwest Mortgage, I think the same thing could be said about Bank of America. The Ginnie Mae is not something that excludes competition from the conventional mortgage-backed security, in my opinion it causes competition. As I said, we made conventional home loans, and if there's a market that's better and if the rate is right we will make that loan. The critical situation is—particularly in New Mexico—many times that's the only type loan that you can make. And so in our opinion the Ginnie Mae mortgage-backed securities is critically important.

Southwest Mortgage Co. has made 1 to 4 family residential loans in 27 of the 33 counties in New Mexico. And in my written testimony, I have got a chart showing those locations.

MORTGAGE CREDIT AVAILABLE

The first question I woud like to address is, is mortgage credit available to build or purchase homes in the rural areas of New Mexico? The answer to that question is, yes, but a qualified yes. For purposes of evaluating the availability of mortgage credit, rural areas need, in my judgment, to be further delineated. Rural areas within 15 miles of Albuquerque are different than rural areas such as Fort Sumner or within 10 miles of Fort Sumner in DeBaca County, or Silver City or within 15 miles of Silver City in Grant County. The ability of a lender to make and market home loans—and I underline "market." We don't have any savings, so any loan that we make has to be able to be resold in the secondary market, and so the type of risks that we can take are much different than the savings and loan associations in that respect—where the security is a property on Highway South 14 on the east side of the Sandia Mountains near Albuquerque or near Los Lunas in Valencia County which is only about 20 miles from Albuquerque is much different than our ability to market loans in DeBaca County or any one of the rural counties removed from a metropolitan area. The answer to this question, as I said, is, "Yes, there's money available but there are other things * * *"——

Senator SCHMITT. But that's because your ability to sell that loan, to market in the secondary is less. They are setting criteria that make it more difficult for you to market a near-urban loan versus a truly rural loan?

Mr. WERTHEIM. Well, the fact is, on that, Senator, that when we look at the conventional, what we call the private secondary market, in the last 2 years it has really come down to almost two sources, and that's the Federal National Mortgage Association, which you will hear from, and the Federal Home Loan Mortgage Association. A private lender that goes for both residential and commercial loans, if they are coming from Dallas or if they are coming from Hartford, Conn., and they want to look at conventional loans, they say we have the whole United States to look at loans and we don't want to go to Farmington, N. Mex., we want to go to Albuquerque because we can fly in to Albuquerque. I even have had difficulty selling conventional loans in the national market in Las Cruces. Not through

Fannie Mae or Freddie Mac, but through the lender simply because of geographic limitations of somebody coming out and looking at them and selling them. So, that's the situation.

Senator SCHMITT. Are the standards you set for homes such that existing homes are not eligible?

Mr. WERTHEIM. No, we will make loans on existing properties, and do extensively.

Senator SCHMITT. But there are some existing properties that would not meet your standards?

Mr. WERTHEIM. I've got a bit more detail for you here in writing, but I will answer that, and I might be redundant——

Senator SCHMITT. Well, just go ahead with your testimony and we'll cover it if you don't cover it.

Mr. WERTHEIM. I have a table in here listing the type of mortgage loans that are available in rural areas, and that is FHA assured, VA guaranteed, Federal land bank loans and conventional home loans. I also list the maximum term in terms of the loan, the interest rate, and the discount that must be charged, the loan-to-value ratio, and other limitations. The interest rate varies from 1 percent on a FmHA insured and subsidized loan, to 17¼ percent on a straight conventional home loan. Only FmHA, among all the rural loans considered, has no service origination fee. Further, in looking at the table, you would notice that FmHA subsidized loans are limited to homes no larger than 1,200 square feet.

I might say that I took this from my vantage, and I think that the fact that these two things dove-tail will be beneficial. Also, the maximum loan amount in New Mexico is $42,000. I think that's been done in order to try to spread the money around. The adjusted gross income varies between $13,500 and $18,000 for subsidized loans. The amount of funds that were available for subsidized home loans by the FmHA, as you know, was about $18 million. The total amount that they put out in New Mexico in 1981 was around $20 million. The FHA insured 172 units of subsidized housing under section 235 of the National Housing Act in 1981. Of this total, 71 or 41 percent were in the smaller communities. In 1982 the New Mexico office of FHA expects no allocation under its section 235 subsidized program. As you can see, there will be very little subsidized money available either from the FmHA or the FHA.

I would digress here, because it will not come out in my oral testimony, that as far as the biggest stretch for the dollar, which I think in this time of trying to curtail is very important, is the FHA subsidizes just the upper portion and tries to make it go away so that the people will ultimately not need to be subsidized, and so their program, it would appear, permits $806,000 to provide many more people housing than, say, the FmHA where it is a direct debt, it's money from the U.S. Government which is reloaned as opposed to the insured program by FHA.

As I said, no private institution participated in the distribution of the FmHA money. In the case of the FHA, all of the 235 insured loans were made by "approved mortgagees," which are mortgage banking companies, savings and loan associations, and commercial banks located throughout the State of New Mexico. In evaluating the availability of mortgage credit, I looked at the housing stock by county.

This is also something that you and your staff has done, but I thought that in making an evaluation that would be good. The information is set forth in a table and is, in my opinion, extremely interesting.

I would like to digress on this table just to say that 172 units—and these facts may not be right, but I think they would warrant that I would check on your staff—in getting 172 units of subsidized housing, that subsidized down to 6¾ percent the FHA used $602,000. That compares to 672 units put out by the FmHA, and it cost $20,342,000 to do that. Now, I think that subsidized—and I will later testify—subsidized money in New Mexico is critically important. What I am saying is: How can we get the most units of housing for the least, either direct funding by the Federal Government or by using a guarantee or insurance vehicle? I think that's a very important consideration.

Total housing units available for occupancy in 1980 in New Mexico were 386,381, with 18,546 or 5 percent substandard. If you take out the two SMSA areas, there were 211,000 housing units, and about 8 percent of those were substandard. In two of the rural New Mexico counties, 34.2 percent and 31 percent of the housing stock was substandard.

I also looked at the median family incomes for the State and by county. In New Mexico the median family income was $24,691. The average, removing the two SMSA areas was $23,856. The lowest median family income for any county was $12,685. And I took that by taking the per capita income and multiplying it by 3.3, since the 1980 census data is not available. There were five New Mexico counties with median family incomes of less than $18,000 per year. All of this was put there to say one thing: Mortgage credit is available in rural New Mexico, but the typical family cannot afford a mortgage credit today.

Again, referring to the table that I have in my written presentation, the median housing value in New Mexico, according to the 1980 census, was $45,400. The lowest median value for any county was $2,600, and there were 10 rural counties where the median housing value was below $25,200. From this data one can conclude that many of the housing units in rural New Mexico are substandard, as has already been stated.

AFFORDABILITY

I would like to get back to this question of affordability. I used a bit different figure than the FmHA, I said that it would cost about $50 per square foot, including the lot, to build a basic "no frills" house in most areas of New Mexico. That may not be correct. If one assumes that, however, and an individual wants to build a house that costs $50,000—and I said the median value in New Mexico was $45,400, he applies for a 95-percent loan for a term of 30 years under the various options, and what I found out was this: That under the FmHA assuming, again, this $47,500, my payment came out $197 per month. Under those facts it would take $9,500 per year in gross income to qualify. On the FHA 235 subsidized down to the maximum of 6¾ percent, and that can go up as high as 15½ percent, it would take $18,214. Under the FHA 203 nonsubsidized program, which is presently at 15½ percent interest, the same payment would be $683. That's compared to $379 under the FHA 235, and $197 under the Farmers Home subsidized, and it would take $32,800 per year to qualify. On a conventional nonsubsidized loan at 17¼ percent, the total income that would be required would be $35,520. The conclusion to be drawn from this exercise is: Very few families in New Mexico with a median family income of $25,000, and it is worse in rural New Mexico, can afford to buy a home today. The typical rural New Mexico family cannot afford private conventional financing of FHA insured nonsubsidized financing.

In order for housing to be produced in New Mexico one must continue to provide an interest subsidy, either through the FHA or the FmHA and, too, provide a means to get long-term interest rates down to the 12-percent level. That's where we think the breaking point is.

The crux of the problem is not availability of private credit, but affordability. It is impossible for New Mexicans to qualify for a home loan today, whether they are in the city or the country.

RURAL VERSUS URBAN AREA MORTGAGE COSTS

The next question to be addressed is: "Is the cost of mortgage money more in rural areas than it is in urban areas?" The answer, in my opinion, is yes, at least from where we look at it. The reasons, however, are tied to delivery and risk. There is far less demand spread over a wide geographic area. It costs far more to serve rural New Mexico. Should a lender have a problem loan, the cost to service that loan is much greater. Should the lender be forced to foreclose, the property will probably not sell nearly as quickly as would the same property located in an urban area.

Now, I would emphasize here, neither Fannie Mae nor Freddie Mac nor any institutional investor that we deal with and sell has set these rules down. This is my own experience of what I think is the ultimate risk of making a loan out in the country.

Senator SCHMITT. You are saying that's the nature of the marketplace?

Mr. WERTHEIM. That's the nature of the marketplace, and we have to consider that whether you're talking about subsidy or nonsubsidy. I even think that some of the FmHA—I wasn't aware that, say, they had a substantial delinquency but, you know, we're all human beings, and I think that—my opinion is that the FmHA, the ones that I have observed, has done a very good job, but if you say, put the money out to people not working, you're not going to get paid quite as fast. My father has been on the county board for the FmHA, and various things, and we're in the ranching business, as well, in rural counties. And, so, one has to say: what are you going to do? I think in making laws it's very easy for a lawmaker to, say, set down the rules in Washington and then say, FHA or FmHA, or VA, you carry it out. And I think these people do a very good job, but the people that are there pounding on the desk and saying, let's help the poor people, they're not around when the accountability comes 4 years down the pike when you've got a 30 or 40 percent delinquency rate, or you've got a problem in Detroit where all these things occurred, which I was not involved in but observed when I lived in the Midwest. And I think that's a very important consideration, and I think that it's wonderful that you are coming out into the country and listening to what's happening from that point of view.

Another problem in providing mortgage credit in rural areas is the delivery system. The FmHA made——

Senator SCHMITT. Excuse me. I intended to ask: Can you quantify the increased cost of service between urban and rural?

Mr. WERTHEIM. Well, as I told you, Senator, under this New Mexico Mortgage Mass Authority, which we really made an effort to go out into the country, we told them, any county you can't serve, you bring it to us and we'll serve it, because our overall profits were satisfactory and I wanted to do it. And we were able to do that because we knew we had a market. But if we have to make a loan, we have to underwrite it without prior approval and we have no depository money, if we make a loan in Bayard, N. Mex., and then one of our private investors or even Fannie Mae questions it and they come and we take them over to Bayard and we say, "Hey, this is a good loan, this is a good credit," and they look at it and they may compare it to what they call a "North Dallas Special" in Dallas, Tex. And I own that loan and my net worth is such that I can't take very many of them, so from my point of view, as a private businessman, I've got to be cognizant of that, I've got to make a loan that I can market, you know, so that that could be—it could be overcome. And I will later say that if we could make the FmHA guarantee program more amenable to the private sector—okay?—then I think we could access the secondary market better, much better.

Senator SCHMITT. Well, there is a guaranteed program. Why doesn't it work?

Mr. WERTHEIM. I'll tell you later why it doesn't work.

Senator SCHMITT. Well, please proceed. I understand what you're saying, that it's hard to quantify the difference between urban and rural. You said there is a difference of the cost of service——

Mr. WERTHEIM. Well, I'll give you one example.

Senator SCHMITT. If you can think of some way to give us some general quantification?

Mr. WERTHEIM. I'll give you a concrete example. I've got a house over in Grants, N. Mex., that I had a very excellent loan on. And I can't criticize my underwriters. Our committee looked at that and we said under any circumstances we would have made that loan. It happens to be an 80-percent loan, which that doesn't serve a whole lot of people who don't have a whole lot of money to put down, OK? But then we were keeping that because the rules now require that we have a minimum of $250,000 in loans in order to access certain secondary markets—or that was the rule at that time. Well, in the meantime we know what happened in Grants, the miners left. This poor man put 20 percent of his money, hard dollars, into that house. He had to go to some other part of the country to get a job. All right, all of a sudden that 80-percent loan did not have any private mortgage insurance. We can't sell it, we can't rent it, we've had it for 6 months. I expect to own it—I don't know how long I'll own that house.

Senator SCHMITT. At least 5 years?

Mr. WERTHEIM. Right. You know, and I've got Dave Service over there looking to try to rent it. I think he's a very capable guy. But there's the problem, you see. And if you go to Fort Sumner and you take a loan and you make a bad loan and you have a house and you are there, you may sit with that house for 1 year, and at, say, 18, 20, 21 percent cost of money it soon becomes very apparent that we can't take that risk as a private company.

Now, the gentleman from Mutual Building & Loan says, we take that risk because we have the savings consideration, and many times we have to eat that, is what I heard him say, and we put it in our own portfolio. But they, likewise, because of the condition of the thrift industry, can't do that very much either. So, what's happening today, with the changes in the financial institutions and the structure, and the things that are going along, you stand a very good chance of seriously crippling a very good delivery system of mortgage credit to rural and to the United States for the sake of having the City Bank have branches in New Mexico and the Bank of America have branches in New Mexico and have Jack, down at Albuquerque Federal trying to figure out how he can be strong enough, that's about a $5 or $6 million institution, so that when whoever, say Citizens' Savings & Loan out of San Francisco, Tony Frank's company, comes in here with a branch, that he will be so strong that they won't take him over. But you think about that compared to, say, our company that has a much smaller net worth, or Mutual Building & Loan, you know. So that I think that the actions that are being taken so fast are hurting thrift institutions that did an outstanding job that may be causing people to suffer greatly. I don't mean to get off the subject.

Senator SCHMITT. That's all right, we'll be dealing with that one, too.

Mr. WERTHEIM. All right, I've said that Farmers Home does not have an origination of service fee. If a study were made we would probably discover that most of the loans that Farmers Home made were in Dona Ana County near Las Cruces, in Valencia or Bernalillo Counties near Albuquerque or in the towns of Grants, Gallup, or Artesia, or Alamogordo. In the FmHA program delivery depends too much on individual county supervisors serving the county. Also, you will find many of your most needy, depressed rural counties were not served at all.

The New Mexico FHA operated exclusively through private lenders. Forty-one percent of the 235 subsidized loans insured by FHA went to rural communities. The New Mexico office of the Veterans' Administration did not make one VA direct loan in 1979, 1980, or 1981. The VA served the veteran, but by working with the private lender, they were able to access that market without making direct loans.

I would guess that the cost by the Farmers Home Administration to deliver the $20,000,000 in direct loans was greater than it would have been if the private lender network would have been used. Another point to be considered in deciding whether the private lender is to be used is one of quality.

NO SECONDARY MARKET

The Farmers Home Administration loan guarantee program has not been used. The main reason for this is the program is not designed so that the loans can be sold in the secondary market. Ninety percent of the loan can be guaranteed; 10 percent is not guaranteed. This arrangement is designed so that the local savings and loan or bank would make the loan, keep the 10-percent unguaranteed portion and sell off the 90-percent guaranteed portion in the secondary market. The Farmers Home Administration invited us to participate in their residential guaranteed program 2 or 3 years ago, and with the nature of the market that we were serving we didn't feel that we could staff up to sell that 10 percent participation. Now, in the BNI section—may I comment on that very briefly?

Senator SCHMITT. It better be briefly.

Mr. WERTHEIM. Well, let's go on.

Senator SCHMITT. Comment for the record.

Mr. WERTHEIM. Well, let me——

Senator SCHMITT. No; I mean we can get it from you later. We really are running out of time.

Mr. WERTHEIM. The main problem is: There is no secondary market for the guaranteed portion in today's world. Today, and in the past, the savings and loan and the commercial bank serving the rural community did not participate in the secondary market. Also, the "redtape" necessarily involved in processing a Farmers Home Administration guaranteed loan is too much for the small savings and loan or small bank. If that program were changed and you had a 100-percent guarantee only, then we would be able to put those in Ginnie Mae mortgage-backed securities and we would be able to access the secondary market. The FHA-insured and VA-guaranteed loans—that was another question that you asked—have been extensively used in New Mexico. In past years over 50 percent of the FHA-insured and VA-guaranteed loans were made outside the two standard metropolitan statistical areas. The critical problem in many of these rural areas, particularly those not near defense installations or natural resource extractive industries, is affordability of the house. People are too poor to afford housing.

In conclusion I would like to offer these points:

Private credit is available in rural New Mexico, but it is too expensive. Most New Mexicans cannot afford to pay the prevailing interest rates.

Housing, and the jobs that stem from building those houses, is desperately needed in rural New Mexico.

The Farmers Home Administration 502 subsidized and the FHA 235 subsidized loans continue to be needed.

The Farmers Home Administration 502 program should be modified so that the guarantee of the loan can replace the direct investment. I think you'll get more bank for the bucks, and I think you can involve the private segment which would help in your delivery of the used product to the counties.

The Farmers Home Administration 502 program should be modified.

The FHA-insured, VA-guaranteed, and Ginnie Mae mortgage-backed security programs are vitally important in providing housing credit in New Mexico. The Ginnie Mae mortgage-backed security permits sale of home mortgages to nontraditional lenders such as pension funds. These markets are critical in view of the problems the thrift institutions, the traditional supplier of mortgage credit, are having.

Thank you very much for listening.

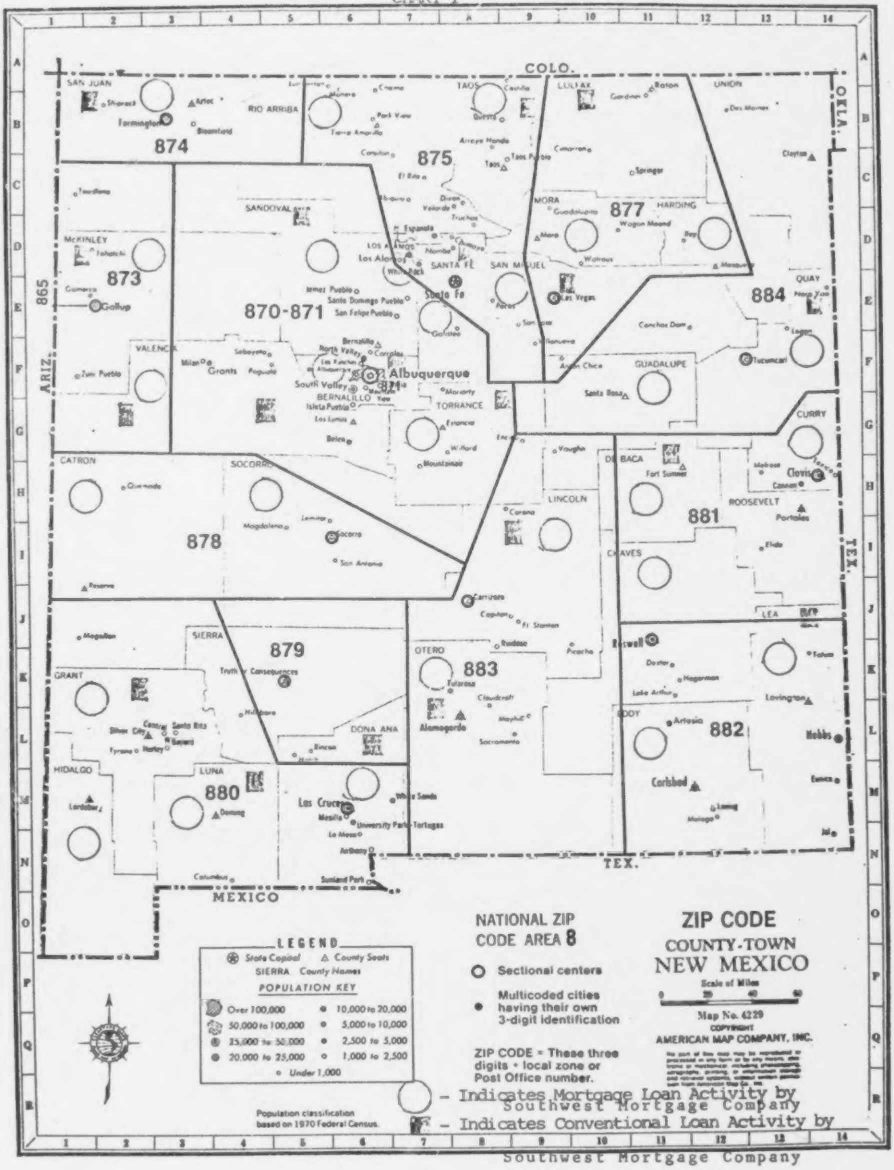
[Complete statement of Mr. Wertheim follows:]

STATEMENT OF

Robert Wertheim
Chairman, Southwest Mortgage Company

My name is Robert Wertheim; I am Chairman and Chief Executive Officer of Southwest Mortgage Company (SMC). Southwest Mortgage Company makes permanent mortgage loans on single family, multi-family and commercial real estate in the State of New Mexico. This includes FHA-insured, VA-guaranteed and conventional home loans as well as loans to finance income and commercial properties. The company has offices in Albuquerque, Farmington, Hobbs, Las Cruces, and Santa Fe. SMC, on January 1, 1982, was administering a total mortgage portfolio secured by New Mexico properties in excess of $235 million (5,466 units). The company is an approved lender for the business and industry section of the Farmers Home Administration and has participated in or closed four loans totaling $6,350,000. As a Mortgage Banker, Southwest Mortgage Company purchases mortgage loans which it resells to institutional investors in the secondary market. The company has issued 61 GNMA mortgage-backed securities and with this vehicle, has sold $76,900,000 of residential home loans all of which were insured or guaranteed by the Federal Housing Administration or the Veterans Administration and the Government National Mortgage Association. The company has not issued any conventional mortgage-backed securities. Southwest Mortgage Company has made 1 to 4 family residential loans in twenty-eight of the thirty-three counties in New Mexico. Chart I is a map of New Mexico where the counties are specifically depicted.

CHART 1 NEW MEXICO



○ - Indicates Mortgage Loan Activity by Southwest Mortgage Company

▨ - Indicates Conventional Loan Activity by Southwest Mortgage Company

The first question I would like to address is, "Is mortgage credit available to build or purchase homes in the rural areas of New Mexico?" Before addressing this question one should define rural. Webster's Dictionary says: "of or relating to the country, country people or life, or agriculture." For purposes of evaluating the availability of mortgage credit, rural areas need, in my judgment, to be further delineated. Rural areas within fifteen miles of Albuquerque are different than rural areas such as Ft. Sumner or within ten miles of Ft. Sumner in De Baca County, or Silver City or within fifteen miles of Silver City in Grant County. The ability of a lender to make and market home loans where the security is a property on Highway 14 South on the east side of the Sandia Mountains near Albuquerque or near Los Lunas in Valencia County which is only twenty miles from Albuquerque is much different than our ability to market loans in De Baca County or any one of the rural counties removed from a metropolitan area. The answer to the question, "Is mortgage credit available to build or purchase homes in rural areas of New Mexico?", is "Yes, BUT--." Table I lists the type of mortgage loans that are available in rural areas; it also lists the maximum loan, the term of the loan, the interest rate, the discount that must be charged, the loan to value ratio and other limitations. The interest rate varies from 1% on a Farmers Home Administration insured subsidized loan (direct) to 17 1/4% on a straight conventional home loan. Only FmHA among all the rural loans considered has no service charge (origination fee). In looking at Table I you will notice that Farmers Home Administration subsidized loans are limited to homes no larger than twelve hundred

TABLE I

Type	Maximum Loan	Term	Interest Rate	Discount	Loan to Value Ratio	Other Limitations
FEDERAL HOUSING ADMINISTRATION[1] (HUD)						
Section 203b (Insured) (Other variations with slightly different terms which are available Sections 221d, 245)	Albuquerque. $70,500 Other: $67,500	30 years	Maximum (administered) 15 1/2% and 1/2% MIP	Subject to Market	97% of first $25,000 95% above $25,000	1. All weather public road 2. Other minimum standards
Section 235 (subsidised) (revised)	3 bedroom: $47,500 4 bedroom: 55,000	30 years	Minimum: 6 3/4% + .7% MIP - adjusted upward to 15.5% based on adjusted family income of applicant	Subject to Market	97% of first $25,000 95% above $25,000	1. None available for fiscal year 1982 2. Maximum incomes vary from $16,350 to $36,680 (varies by family size and county)
FARMERS HOME ADMINISTRATION[2]						
Insured Direct Loans Section 502 (subsidised)	$50,000 (New Mexico state limited to $42,000 to distribute available funds)	33 years	Minimum of 1% adjusted upward; borrower pays up to 25% of income	No origination fee nor discount	100%	1. Building limitations "Safe & Sanitary" 1981: 800 to 1200 square feet 1982: 1 bath rather than 1 1/2 baths no garage permitted 2. Limited to rural areas and towns under 10,000. May make loans in towns up to 20,000 if other federal credit unavailable 3. Income varies from $13,500 to $18,000
Section 502 (non-subsidised)	$50,000 (New Mexico state limited to $42,000 to distribute available funds)	33 years	Minimum of 13 1/4% Maximum of 15 1/2% based on adjusted family income of applicant	No origination fee nor discount	100%	1. Building limitations "Safe & Sanitary" 1981: 800 to 1200 square feet 1982: 1 bath rather than 1 1/2 baths no garage permitted

TABLE I (cont'd.)

Type	Maximum Loan	Term	Interest Rate	Discount	Loan to Value Ratio	Other Limitations
						2. Limited to rural area and towns under 10,000. May make loans in towns up to 20,000 if other federal credit unavailable 3. New Mexico divided into eight income areas. Range for non-subsidised's is $19,000 to $23,500
VETERANS ADMINISTRATION[3]						
Guaranteed (501) Direct	$110,000	30 years	Maximum (administered) 15 1/2%	Subject to Market	100%	Strong effort to serve Veteran
FEDERAL LAND BANK[4]	$ 60,000	25 years (new) 20 to 25 years (existing)	13% adjustable upon 30 days notice. Based on Federal Land Bank cost of funds	5% Stock Purchase required 6 1/2% fee	80%	1. Each district Land Bank decides whether or not home loans will be made 2. Limited to rural areas or towns up to 2500
CONVENTIONAL[5]	$107,000	30 years	17.25% Subject to Market and Lender	2 1/2% Subject to Market and Lender	95% with Private Mortgage Insurance	1. Certain minimum standards established by lender for location and improvements

[1] Source: Albuquerque Service office of FHA (HUD)

[2] Source: N.M. State office for FmHA

[3] Source: N.M. Regional office of the VA

[4] Source: Federal Land Bank Assn. of Albuquerque

[5] Source: Southwest Mrg. Company

square feet. Also the maximum loan amount in New Mexico is $42,000. The adjusted gross income varies between $13,500 and $18,000 for subsidized loans. The amount of funds that were available for subsidized home loans by the Farmers Home Administration and Federal Housing Administration in 1981 and the amount projected available for 1982 is listed in Table II. You will notice that the Farmers Home Administration made 558 subsidized loans totaling $17,900,000 in F.Y. 1981. The FmHA is presently operating under a continuing resolution but, in 1982 about the same amount of funds is expected to be available for New Mexico. The Federal Housing Administration insured 172 units of subsidized housing under Section 235 of the National Housing Act in 1981. Of this total seventy-one, or 41%, were in the smaller communities. In 1982 the New Mexico office of the Federal Housing Administration (HUD) expects no allocation under its Section 235 (subsidized) program for New Mexico. As you can see there will be very little subsidized money available either from the Farmers Home Administration or the Federal Housing Administration. I would point out that all of the Farmers Home Administration funds were distributed on a direct basis. No private institutions participated. In the case of the Federal Housing Administration all of the FHA 235 insured loans were made by "Approved Mortgagees" which are mortgage banking companies, savings and loan associations, and commercial banks located throughout the State of New Mexico. In evaluating the availability of mortgage credit it is appropriate to look at the total housing stock by county in the State of New Mexico. That information is given in Table III.

TABLE II

		Fiscal Year 1981		Projected Fiscal Year 1982	
[1]FmHA 502 Insured Loans (Direct loans - No private involvement)					
		#	$	#	$
Subsidised	New	355	$ 13,229,000	Operating under continuing resolution. Expect the same amount of funds	
	Old	203	$ 4,672,034		
		558	$ 17,901,034		
Non-subsidised		112	$ 2,423,000	Operating under continuing resolution. Expect the same amount of funds	
TOTAL		672	$ 20,324,034		
FmHA 502 Guaranteed Loans		-0-	-0-	-0-	-0-
[2]FED HOUSING ADMINISTRATION (HUD) FHA INSURED (Made by private lenders. FHA insures loan)					
METRO (Within two SMSA's in New Mexico - Albuquerque & Las Cruces)		101	$353,500	-0-	-0-
NON-METRO		71	$248,500	-0-	-0-
		172	$602,000[3]		
[4]VETERANS ADMINISTRATION DIRECT		-0-	-0-	-0-	-0-

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[1] Source: New Mexico office (of Farmers Home Administration)

[2] Source: New Mexico office of Federal Housing Administration (HUD)

[3] Total Subsidised Authority. Anticipated outlay during life of loan (or subsidy)

[4] New Mexico Office of Veterans Administration

TABLE III

	Total Population[1] 1980	Total Population[1] 1970	Change 1970-1980[1] Number	Change 1970-1980[1] Percent	Net Migration[1] Number	Net Migration[1] Percent	Total Housing Units[2]	Percent Lacking Some or all Plumbing Facilities[2]	Income of Families[3]	Median Housing Value[2]
New Mexico	1,302,894	1,017,055	285,839	28.1	143,260	14.1	386,381	4.8	24,691	45,400
SMSA'S										
Albuquerque	331,788	244,501	87,287	35.7	na	na	132,788	na	28,387	na
Las Cruces	45,086	37,856	7,230	19.1	na	na	17,714	na	20,100	na
Counties										
Bernalillo	419,700	315,774	103,926	32.9	63,714	20.2	162,126	1.2	28,908	5[illegible],900
Catron	2,720	2,198	522	23.7	341	15.5	1,396	15.1	16,853	23,000
Chaves	51,103	43,335	7,768	17.9	4,282	9.9	20,823	1.8	23,513	30,500
Cibola	There is no data for Cibola County, which was formed from the western part of Valencia County in 1981, after the 1980 census.									
Colfax	13,667	12,170	1,497	12.3	568	4.7	6,923	5.8	24,311	33,200
Curry	42,019	39,517	2,502	6.3	-4,490	-11.4	16,213	1.0	23,938	33,900
De Baca	2,454	2,547	- 93	- 3.7	- 94	- 3.7	1,350	5.0	23,153	20,200
Dona Ana	96,340	69,773	26,567	38.1	14,909	21.4	33,944	3.2	20,100	41,800
Eddy	47,855	41,119	6,736	16.4	2,756	6.7	18,154	1.5	23,869	32,000
Grant	26,204	22,030	4,174	18.9	1,005	4.6	9,631	3.1	23,800	33,600
Guadalupe	4,496	4,969	- 473	- 9.5	- 874	-17.6	2,143	17.3	16,688	15,700
Harding	1,090	1,348	- 258	- 19.1	- 270	-20.0	553	9.7	20,998	10,600
Hidalgo	6,049	4,734	1,315	27.8	512	10.8	2,326	1.6	24,367	23,600
Lea	55,993	49,554	6,439	13.0	- 459	- 0.9	20,892	0.9	27,344	32,800
Lincoln	10,997	7,560	3,437	45.5	2,692	35.6	9,739	3.0	23,179	43,100
Los Alamos	17,599	15,198	2,401	15.8	1,057	7.0	6,585	0.3	41,131	77,200
Luna	15,585	11,706	3,879	33.1	2,572	22.0	6,290	2.1	22,572	32,100
McKinley	56,449	43,208	13,241	30.6	2,050	4.7	17,587	31.0	17,797	35,400
Mora	4,205	4,673	- 468	-10.0	- 788	-16.9	2,105	34.2	12,685	11,700
Otero	44,665	41,097	3,568	8.7	-3,815	- 9.3	17,961	1.4	21,622	34,500
Quay	10,577	10,903	- 326	- 3.0	- 816	- 7.5	4,914	2.8	21,473	23,200
Rio Arriba	29,282	25,170	4,112	16.3	- 91	- 0.4	11,107	16.0	17,335	31,500
Roosevelt	15,695	16,479	- 784	- 4.8	-2,172	-13.2	6,510	1.5	21,638	27,000
Sandoval	34,799	17,492	17,307	98.9	13,993	80.0	12,286	8.6	20,272	48,800
San Juan	81,433	52,517	28,916	55.1	16,969	32.3	29,552	11.3	24,998	48,000
San Miguel	22,751	21,951	800	3.6	-1,729	- 7.9	9,907	12.1	15,371	25,200
Santa Fe	75,360	54,774	20,586	37.6	13,632	24.9	28,299	2.9	27,090	64,900
Sierra	8,454	7,189	1,265	17.6	1,82[illegible]	25.4	5,392	4.6	20,219	25,100
Socorro	12,566	9,763	2,803	28.7	1,461	15.0	4,638	8.9	19,391	32,000
Taos	19,456	17,516	1,940	11.1	- 331	- 1.9	9,118	18.1	17,312	41,500
Torrance	7,491	5,290	2,201	41.6	1,743	32.9	3,309	10.4	17,447	23,700
Union	4,725	4,925	- 200	- 4.1	- 369	- 7.5	2,271	4.8	36,254	26,200
Valencia	61,115	40,576	20,539	50.6	13,477	33.2	22,252	6.3	22,321	45,500

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[1] Source: Bureau of Business and Economic Reserach, University of New Mexico.

[2] Source: 1980 United States Census, United States Department of Commerce--Bureau of Census; October, 1981.

[3] Source: Regional Economic Information System, Bureau of Economic Analysis; April, 1981. Income of Families was estimated from per capita personal income; 1979.

Total housing units available for occupancy in 1980 in New Mexico were 386,381, with 18,546 or 5% substandard. In rural New Mexico, outside the SMSA's, there were 210;660 housing units with 16,095 or 8% substandard. In two of the rural New Mexico counties, 34.2% and 31.0% of the housing stock was substandard.

Table II also lists the median family incomes for the state and by county. For New Mexico the median family income was $24,691. The average, removing the two SMSA's, was $22,298. The lowest median family income for any county was $12,685 and there were five New Mexico counties with median family incomes of less than $18,000 per year.

One of the basic problems, then is not "Is mortgage credit available in rural New Mexico," but what can a typical family afford?

Again referring to Table III the median housing value in New Mexico according to the 1980 census was $45,400. The lowest median value for any county was $10,600 and there were ten rural counties where the median housing value was below $25,200. From this data one can conclude that many of the housing units in rural New Mexico are substandard.

Let me return to the question of affordability. Today, it would cost about $50 per square foot (including the lot) to build a basic "no frills" house in most areas of New Mexico. If one assumes that an individual wants to build a house that costs $50,000 (the median value in New Mexico was $45,400), he applies for a 95% loan for a term of 30 years under the various options (see Table I) that might be available.

	FmHA 502 (subsidized) at 1% $47,500 loan 30 year term	FHA 235 (subsidized) at 6 3/4% $47,500 loan 30 year term	FHA 203 (non-subsidized) at 15 1/2% $47,500 loan 30 year term	Conventional (non-subsidized) at 17.25% $47,500 loan 30 year term
Principal & Interest	$152.95	$335.96	$639.42	$696.50
Property Taxes	30.00	30.00	30.00	30.00
Hazard Ins.	13.50	13.50	13.50	13.50
Total Pmt.	$196.45	$379.46	$683.00	$740.00
Assume 25% of Gross Income to Qualify	X 4	X 4	X 4	X 4
Monthly Income Required	$786.00	$1,518.00	$2,732.00	$2,960.00
Annual Income Required	$9,430.00	$18,214.00	$32,780.00	$35,520.00

The conclusion to be drawn from this exercise is, very few families in New Mexico with a median family income of $24,690, and it is worse in rural New Mexico, can afford to buy a home today. The typical rural New Mexico family cannot afford private conventional financing or Federal Housing Administration insured (nonsubsidized) financing. In order for housing to be produced in New Mexico one must:

1. Continue to provide an interest subsidy, either through the Federal Housing Administration or the Farmers Home Administration.
2. Provide a means to get long term interest rates down to the 12% level.

The crux of the problem is not availability of private credit, but affordability. It is impossible for most New Mexicans to qualify for a home loan today.

The next question to be addressed must be, "Is the cost of mortgage money more in rural areas than it is in urban areas?" The answer is a qualified yes. The reasons, however, are tied to delivery and risk. There is far less demand spread over a wide geographic area. It costs far more to serve rural New Mexico. Should a lender have a problem loan, the cost to service that loan is much greater. Should the lender be forced to foreclose, the property will probably not sell nearly as quickly as would the same property located in an urban area. The private lender can and will service the mortgage needs of rural New Mexico. In order to do this he needs to be paid for his service.

Another problem in providing mortgage credit in rural areas is the delivery system. The FmHA made $20,324,034 in rural home loans in New Mexico in 1981 (See Table II). Most of the loans were made at an interest rate of 1%. No origination or service fee was charged. If a study were made we would probably discover that most of the loans were made in Dona Ana County near Las Cruces, in Valencia or Bernalillo Counties near Albuquerque or in the towns of Grants, Gallup, or Artesia. In the FmHA program, delivery depends too much on individual county supervisors serving the county. Also you will find many of your most needy (depressed) rural counties were not served at all.

The New Mexico Federal Housing Administration operated exclusively through private lenders. Forty-one percent of the 235 subsidized loans insured by FHA went to the rural counties. The New Mexico office of the Veterans Administration did not make one VA direct loan in 1979, 1980 or 1981. The VA served the New Mexico

Veteran, but by working with the private lender. In the words of Ray Corkran, New Mexico Chief of the Loan Guaranty Division, "Private lenders were able to fill the gap--."

I would guess that the cost by the FmHA to deliver the $20,000,000 in direct loans was greater than it would have been if the private lender network would have been used. Another point to be considered in deciding whether the private lender is to be used is one of quality.

The Farmers Home Administration loan guarantee program has not been used. The main reason for this is that the program is not designed so that the loans made can be sold in the secondary market. Ninety percent of the loan can be guaranteed; ten percent is unguaranteed. This arrangement is designed so that the local savings and loan or bank would make the loan, keep the 10% unguaranteed portion and sell off the 90% guaranteed portion in the secondary market. The main problem is, there is no secondary market for the guaranteed portion in today's world. Today, as in the past, the savings and loan and the commercial bank serving the rural community does not participate in the secondary market. Also, the "red tape" necessarily involved in processing a FmHA guaranteed loan is too great. The FmHA guaranteed loan program can work. The guarantee needs to be increased from 90% to 100%, similar to the Federal Housing Administration's insurance program. Then these loans could be placed in the GNMA mortgage-backed security with FHA-insured and VA-guaranteed loans and sold in the secondary market.

The FHA-insured and VA-guaranteed loans have been extensively used in New Mexico. It has been my observation over the years that in this state more than 50% of the FHA-insured and VA-guaranteed loans are made outside the two SMSA areas in the rural counties. The critical problem in many of these rural areas, particularly those not near defense installations or natural resource extractive industries, is affordability. People are too poor to afford housing.

In conclusion:

1. Private credit is available in rural New Mexico, but it is too expensive. Most New Mexicans cannot afford to pay the prevailing interest rates.
2. Housing, and the jobs that stem from building this housing, is desperately needed in rural New Mexico.
3. The FmHA 502 subsidized and the FHA 235 subsidized loans continue to be needed.
4. The FmHA 502 program should be modified so that the "guarantee" of the loan can replace the direct investment by the Federal government in home loans.
5. The FmHA 502 program should be modified to encourage participation by private lenders. This probably would improve delivery, reduce costs, and improve participation in the secondary market.
6. The FHA-insured, VA-guaranteed, and GNMA mortgage-backed security programs are vitally important in providing housing credit in New Mexico. The GNMA mortgage-backed security permits sale of home mortgages to non-traditional lenders such as pension funds. These markets are critical in view of the problems that thrift institutions, the traditional supplier of mortgage credit, are having.

Senator SCHMITT. Now, I think our final witness is Mr. Deisher, with Fannie Mae. Please proceed.

STATEMENT OF JOHN J. DEISHER, REGIONAL VICE PRESIDENT, FEDERAL NATIONAL MORTGAGE ASSOCIATION, DALLAS, TEX.

Mr. DEISHER. Mr. Chairman, my name is John J. Deisher, and I am Regional Vice President for the Southwest Regional Office of the Federal National Mortgage Association, usually called Fannie Mae. My office serves the geographical area which includes the States of Arkansas, Colorado, Kansas, Louisiana, Missouri, New Mexico, Oklahoma, and Texas. You have the text of my prepared remarks. With your permission, I will try to condense and hopefully have a logical presentation.

CREATION OF FANNIE MAE

The Federal National Mortgage Association began in 1938 as part of the Federal Government. After several reorganizations, in 1968 the Congress enacted legislation to charter Fannie Mae as a private corporation, with a statutory mandate to provide assistance, liquidity, and stability to the home mortgage market.

Today Fannie Mae holds $60 billion in mortgages—one of every 20 home mortgages in America. It purchases these mortgages from originators, such as mortgage bankers, savings and loan associations, and commercial and savings banks, to provide them money to lend more people to buy homes.

Fannie Mae has obtained the money to purchase these mortgages largely through short or medium term borrowing in the credit markets. Fannie Mae's debt—about $58 billion—is held by banks, savings and loan associations, State governments, foreign central banks, and other investors.

Fannie Mae is a financial intermediary, spanning the gap between the real estate and finance markets. It improves the efficiency of the housing finance market, thus permitting housing to compete for investment dollars. Given Fannie Mae's national scope, it also channels mortgage funds from regions of greatest availability to regions of greatest need. And Fannie Mae has worked with Ginnie Mae—the Government National Mortgage Association—to use the market mechanism to increase the availability of low- and moderate-income housing.

Fannie Mae is a key to maintaining a stable flow of money into the mortgage sector. During the past periods of credit shortages and high interest rates, Fannie Mae has responded with extensive mortgage purchases to help prevent even more severe disruptions in housing. In 1981, Fannie Mae purchased some 93,000 home mortgage loans with a total value of about $5 billion.

For the information of this subcommittee, we are having data printed from our computer relative to Fannie Mae-owned mortgages where the mortgaged property is in a rural area. Unfortunately, because of computer problems, we were not able to compile this data in time for today's hearing; but we will make it available to the subcommittee as soon as possible.

Senator SCHMITT. Thank you, sir, that will be very helpful.

Mr. DEISHER. To be eligible for sale to Fannie Mae, a mortgage loan must be insured by the Federal Housing Administration, guaranteed by the Veterans' Administration, or the Farmers Home Administration, or in conformance with Fannie Mae underwriting standards for conventional loans and the requirements of Fannie Mae's charter.

At present, we have no mortgages guaranteed under the Farmers Home Administration program. Until the guaranty program was instituted in 1977, the Farmers Home Administration effectively had no home mortgage financing programs other than direct Government loan programs. Fannie Mae, over the past several years, has made efforts to work out a mortgage purchase program with the Farmers Home Administration, but we have been unable to do so. As a result, Fannie Mae has been unable to provide a secondary market for Farmers Home Administration guaranteed home loans.

Senator SCHMITT. Is there any particular reason why you've been unsuccessful?

Mr. DEISHER. I am unaware of the reason, sir. I know we have pursued it, and pursued it on several occasions, but I do not now except the result.

Senator SCHMITT. Please go ahead.

Mr. DEISHER. From a secondary market point of view, credit is no less available in rural areas than in urban areas. Lenders in either area should know that if a loan meets Fannie Mae criteria, Fannie Mae will purchase the mortgage or a participation therein, as the lender prefers. Within the past year, Fannie Mae has built up its marketing division to inform, particularly, thrift institutions and commercial banks about Fannie Mae programs and procedures and to encourage their doing business with Fannie Mae.

If I might digress at this point. Going back several years, Fannie Mae set up a satellite mortgage operation program whereby a lead lender was encouraged to develop a chain of originating lenders in smaller communities with a view that the originating lender, the local savings and loan or bank could take the application, secure the appraisal and the necessary documentation and forward it to the lead lender, who would underwrite and service and could then sell that mortgage to Fannie Mae.

In the eight State region that I represent, we have some 64 lead lenders with about 543, what might be termed, satellite originators, savings and loans and local banks. In New Mexico we have two such situations where we have the First National Bank of Lea with about nine subsidiaries or satellites, and Mr. Wertheim's organization was one satellite. So, we did provide a major effort of Outreach across the country through our satellite program to access the smaller rural communities.

Senator SCHMITT. It does sound like your effort in New Mexico was somewhat less than other States?

Mr. DEISHER. No, I would say—by sheer numbers, yes. To provide greater access to Fannie Mae programs for lenders that are not Fannie Mae approved, Fannie Mae has made changes, effective December 1, 1981, to its conventional mortgage purchase program. Under its new policy, Fannie Mae will purchase from approved lenders conventional mortgages originated by other lenders. The originator does not have to be a Fannie Mae approved lender. The selling lender is responsible for determining that the mortgage meets Fannie Mae's standards and is held solely accountable for the quality of any loan sold to Fannie Mae. Accordingly, a small lender in a rural area seeking access to the secondary market can do so simply by forming a working relationship with a local Fannie Mae approved lender.

MORTGAGE PARTICIPATION PURCHASE PROGRAM

We have a mortgage participation purchase program. Before this program was begun, the corporation bought participations only under special programs for urban and rural areas. The new nationwide program, which operates in both rural and urban areas, has absorbed the two special programs.

The participation programs bear interests of not less than 50 percent and not more than 95 percent in mortgage pools assembled by the sellers. Because each seller retains an ownership interest, the corporation could prudently simplify the documentation, accounting, remittance, and reporting requirements, thereby making the program more attractive to savings and loan associations and banks, including many that have not before dealt with Fannie Mae. Under the purchase agreements, sales transactions can be completed and payment disbursed by Fannie Mae in as little as 2 days.

Savings and loan associations and banks are eligible to sell participations to Fannie Mae even though not approved as Fannie Mae sellers under other programs. The program is designed, among other things, to broaden Fannie Mae's customer base. This it has succeeded in doing when savings and loan associations have become net sellers of mortgages.

To date, commitments totaling approximately $691 million have been issued by Fannie Mae under the new participation program, which began in June 1981.

PASSTHROUGH CERTIFICATES

Most recently, Fannie Mae has made a great effort to assist thrift institutions in ridding themselves of low-yielding mortgages over 1 year old. Through direct negotiated agreements and through auctions, Fannie Mae has purchased some $2.5 billion of "seasoned mortgages" during the past 4 months and has committed to purchase about another $2 billion of such mortgages. These mortgages have been and will be packaged in pools backing securities sold to investors in money centers thoughout the country. Savings and loan associations in rural areas as well as urban areas have participated in this program, which has provided them with either new capital or the means to such. With this new capital, the institutions are able to make new mortgage loans.

In New Mexico and in 13 other States, restrictions on the exercise of due-on-sale clauses in mortgages operate as a serious impediment to the availability of home mortgage credit. These restrictions obstruct lending in both rural and urban areas. If they were removed, as proposed in Senate bill 1720, introduced by Chairman Garn, the availability of credit would be enhanced throughout the State.

Confronted with State laws prohibiting the enforcement of due-on-sale clauses, Fannie Mae and other long-term lenders, have had to protect themselves from being locked into a rate of interest on a fixed-rate mortgage which may be below market for as long as 20 years, for example, while its cost of borrowing is at market levels—the negative spread which is responsible for the financial difficulties being experienced by Fannie Mae and thrift institutions today. The protection instituted by Fannie Mae is in the form of a provision in the mortgage giving the lender the option of requiring that the entire balance be paid in full on the seventh anniversary of the mortgage.

While Fannie Mae has gone to the 7-year call option, many long-term investors in capital surplus centers of the country have simply refused to purchase mortgages from States where the due-on-sale clause cannot be exercised. This limits the secondary market for banks, savings and loan associations, and mortgage bankers in certain rural areas and, accordingly, limits the capital available for new mortgage loans.

As you know, the Senate Committee on Banking, Housing, and Urban Affairs has held hearings on Senate bill 1720 which, among other things, provides for a Federal preemption to allow lenders to exercise their due-on-sale contractual rights in every State. Fannie Mae urges the members of this subcommittee to support the due-on-sale preemption because such will be of significant assistance in making credit available in many rural areas.

This concludes my statement, Mr. Chairman, and I will be happy to answer any questions you might have.

Senator SCHMITT. Thank you very much. We're going to have to move on very quickly. Let me ask if there are any Fannie Mae physical standards for homes that preclude rural loans?

Mr. DEISHER. No, sir, there are not. The only standards we look for is safe, decent, and sanitary and that it would meet the local building or housing codes at the time.

EASEMENT ACCESS

Senator SCHMITT. But as far as access, easement access?

Mr. DEISHER. Perhaps I should, if you would permit me, explain "easement access." What Fannie Mae looks for for any property, whether it be urban or rural or suburban, it's let's say, undeniable access to that property. After that it becomes a little stickier because you may be operating with easement agreements, and easement agreements being such have many benefits and many penalties, and often each has to be examined for its individual merits. Now, in a particular case where one home has an easement and it's not shared with anyone else, that should present no problem for the individual borrower to get a mortgage loan. The complication may be where the easement is shared with four or five other homeowners, similar to what you might have in a planned-unit development, then you have to make a decision and examine the easement agreement to see what are the rights and benefits and penalties accruing to all of the users of that easement.

It is not unknown, where the road became so disreputable, that one of the oweners decided to repair and could not get the cooperation of all the other owners, which led first to a lawsuit and secondly to a very large assessment for the suit that was successfully concluded.

So, I think the key here is: What are the rights, benefits, and penalties. And if there is undeniable access, I should see no problem. But easements and agreements are many and varied and that should stand on its own.

Senator SCHMITT. May I conclude that if New Mexico denied your adverse possession, time had run, then you would conclude that that was undeniable access; is that correct?

Mr. DEISHER. I would have to say that I'm not an attorney and I cannot answer that, sir.

Senator SCHMITT. I suspect it would. I would hope it would, because New Mexico has a very specific body of case law, and it comes down that if the easement has been uncontested for 9 years then it is considered an easement.

Mr. DEISHER. Would you—and, again, I don't profess to be an attorney—be referring to what might be known as an easement by prescription rather than an easement by agreement? If it's an easement over someone else's land—

Senator SCHMITT. Sounds good, but——

Mr. DEISHER. Yeah. [Laughter.] If there is no written agreement, you use it for 9 years then it would be adverse to the primary owner, yes, that would be no problem. I would venture to say we have a number in New Mexico where we do have easement agreements and we have no problems.

Senator SCHMITT. Wells, things like that, is that part of the sanitary emissions?

Mr. DEISHER. I would, if you will, say that on a rural situation, all we look for is that the home is customary to the area, hopefully energy-efficient, although it's not a criteria, but that it be self-supporting in that it would have an effective sewer and sanitary disposal system and a water system onsite that is satisfactory.

Senator SCHMITT. What about adobe?

Mr. DEISHER. Adobe is satisfactory.

QUALIFICATIONS FOR LOAN

Senator SCHMITT. Mr. Wertheim and Mr. Britton, also Mr. Hudson, as I recall, said that they couldn't find anyone who could buy a home who made $15,000 if the interest rate was 13¼ percent. Could you make a loan at 13¼ percent with an income of $15,000?

Mr. DEISHER. Well, similar to what he said, I would have to do a little computing to decide whether or not we could do that. Do you have a book? I don't have a book with me. So, I could answer that later but I could not answer it, you know, specifically right now.

Senator SCHMITT. Mr. Britton?

Mr. BRITTON. Well, with somebody who makes $15,000, would he qualify at 13¼ percent loan, is that the question?

Senator SCHMITT. Yes.

Mr. BRITTON. I couldn't tell you. My comment on one other item——

Senator SCHMITT. Well, I'm a little bit—that sounds like—you couldn't make loans of this kind at 13——

Mr. WERTHEIM. I'll figure it out, I have a thing here.

Senator SCHMITT. Well, go ahead with your comment.

Mr. BRITTON. Well, we don't know what the loan amount is; 13¼ percent money is not available, if that's what you are asking.

Senator SCHMITT. If it were available, if there was a Government program to make it available at 13¼ percent?

Mr. BRITTON. Well, the old rule of thumb that we used to use, you know, that he could afford a range that was 2½ times his income. With the new rates today, I'm not sure that's true, but even if you made $15,000, he could afford a $37,500 home, and I would have to see what the normal down payment was involved, what kind of payment structure you would be dealing with.

Mr. Deisher. Mr. Chairman, may I comment?

Senator Schmitt. Yes.

Mr. Deisher. It's been my thoughts and my experiences over the years that we address the cost of financing as part of the package of the cost of the home. I think we are considering the cost of the land, the improvements, and the cost of the structure as well as the cost of financing. I believe that manufactured housing and mobile homes—and Fannie Mae does have a program for both—can play a major part in reducing the cost of the structure. My personal feeling is that we have to take a good look at the availability of land, the adaptability of land and the cost of producing that land so that we do have more intensive land usage which would provide a lower land cost. And in adding that to, let's say, manufactured housing, in considering those two as a part of the triumvirate in the cost of housing, we may be able to provide some more reasonable benefits. This does not, of course, say that interest rates are going to come down, I just would like to point that to me the cost of housing encompasses more than just the cost to carry.

Senator Schmitt. It's my feeling that interest rates are going to come down, and I think that provided we stick to our course and are consistent in our economic reform efforts that the progress made this last year will continue this year. Given that, let's assume that we bring it down to a much more reasonable interest rate environment; do you agree that the situation in New Mexico still, beyond that, can be improved significantly over what it has been in terms of the availability of both private and subsidized credit to the truly needy people in rural areas?

Mr. Deisher. I can only answer that from the Fannie Mae standpoint, and we stand ready to buy the mortgages.

Senator Schmitt. Would it be helpful if the Farmers Loan guarantee program was such that they could sell in the secondary market?

Mr. Deisher. I think it would, it would improve the distribution, yes, sir.

Senator Schmitt. Do you gentlemen care to comment?

Mr. Britton. Well, we have a branch in Anthony and a branch in T or C and one here, and I think we have the vehicle to service and originate the loans. If the program was set up where we could handle a guarantee for a specified area, I think we could provide the loan.

SIGNIFICANT CONTRAST BETWEEN PROGRAMS

Senator Schmitt. I gather the impression that all of you think that the contrast between the FHA program and the Farmers Home program is significant?

Mr. Wertheim. I feel very strongly that the delivery system using the Farmers Home Administration could be improved; that is, that you could get more housing in the rural areas if it were done through the private lender network, and it would not be too difficult. There has been great reluctance—I don't know about great reluctance. Over the last couple of years I've thought that perhaps we are interested in doing business that we would try to participate with the Farmers Home Administration, and it's simply not set up so the mortgage bankers can work it.

Senator SCHMITT. You know why the 502 program was created?

Mr. WERTHEIM. I really don't.

Senator SCHMITT. It was created because it appeared that the 235 program was inadequate to serve rural areas; namely, that there were not private lenders who would participate in rural areas. Has that situation changed dramatically since 502 was created—when was that?—10 years ago? Has that changed, would FHA work now? Do we even need the 502 program?

Mr. WERTHEIM. Well, I think that would take a lot more study before I could answer it, because I do think they serve a segment of the population in New Mexico that the FHA 235 program does not serve. So, I cannot answer that.

Senator SCHMITT. Well, they're not serving much of that segment in New Mexico. The data we have in mind is that the number of people who are being served is just a small fraction of the number that would qualify or that are even the most needy, and, in fact, they are probably serving the least needy of the needy. That doesn't mean they're not needy, but they are at the top of the scale because of the way the program is designed.

Mr. WERTHEIM. Well, I do think it needs some study, and the Mortgage Bankers Association of America—and that's the reason I am here—we would be very happy to try to work out a program so that the delivery system, the problems that Jim Anderson pointed out, the fact that it's hard to get a contract in Mora County——

Senator SCHMITT. Jim Hudson.

Mr. WERTHEIM. Excuse me—in Mora County, Union County, or Rio Arriba County, it's very difficult to get the skilled people there. But I think that the system could be changed so that at least in New Mexico we could make it work in cooperation with the Farmers Home.

Senator SCHMITT. I think that if we can make it work in New Mexico it will work anywhere in the country from the statistics we've seen, because New Mexico is at the bottom of the pile.

Mr. WERTHEIM. I would like to make another point.

Senator SCHMITT. Quickly, because we've got to run on.

Mr. WERTHEIM. I was just going to say about the packager. The reason that I think that—on the problem loans, you asked why weren't more of them made in New Mexico. It's because there's people who are much more proficient, that know the rules out of Washington, as far as the Farmers Home Administration, they know how to package those deals and they're the ones that do it, so that's the reason for the statistics that you are looking at which show that you don't have more New Mexico contractor/developers doing that business here.

Senator SCHMITT. That's been our suspicion, we've been trying to verify that.

OK, thank you very much. We may be in touch with you for some additional questions after we study your testimony.

Our next panel, if they will come forward, Mr. Bernon Gresham; Mr. Robert Rogers, chairman, Rural Housing Committee, National Association of Home Builders; Ms. Rose Garcia, executive director, Tierra Del Sol Housing Corp. of Las Cruces; and Mr. Jim Anthony,

Anthony and Associates of Albuquerque. Mr. Rogers is from Fort Worth. Mr. Rogers, you may proceed.

STATEMENT OF ROBERT ROGERS, CHAIRMAN, RURAL HOUSING COMMITTEE, NATIONAL ASSOCIATION OF HOME BUILDERS, FORT WORTH, TEX.

Mr. ROGERS. My name is Bob Rogers. I am a rural builder from Fort Worth, Tex. I am testifying today on behalf of the more than 118,000 members of the National Association of Home Builders. I serve as chairman of the NAHB's Rural Housing Committee that includes over 200 rural builders from across the country. We appreciate the opportunity to appear before you today to present the views of the homebuilding industry on the operation of the Farmers Home Administration's housing programs.

I'll shorten my statement and highlight it as we go through. I do applaud, Mr. Chairman, your hearing in the field today. We're very happy to be here.

Senator SCHMITT. Thank you.

Mr. ROGERS. For many years, NAHB has been an advocate of the Farmers Home Administration and, in particular, the housing programs administered by that agency.

The section 515 program provides funds for mortgages to allow low-income persons to live in rental housing in rural communities. Recently, the Department of Agriculture has modified the repayment amortization schedule to dramatically decrease the subsidy for that program.

BUDGET REDUCED

In the letter of invitation to this hearing, the chairman asked several specific questions about how the housing programs can be made more efficient. Later in my statement I will detail several recommendations that we believe could improve the programs and make the housing built under this program more affordable. However, Mr. Chairman, I cannot let the opportunity of this hearing pass without expressing the outrage and disappointment of my committee concerning recent reports of the administration's proposed fiscal year 1983 budget for Farmers Home. The published articles report a cut from $2.3 billion to $900 million for the low-income section 502 homeownership program, elimination of the moderate-income section 502 program that has been budgeted at $430 million for this year and a cut from $940 million to $200 million for the section 515 rural rental housing program. NAHB has estimated that these budget figures mean a cut from 113,949 units in the fiscal year 1982 to only 25,840 units in fiscal year 1983. We are particularly shocked that these reports indicate the Department of Agriculture did not even appeal these cuts to the White House. In all candor, Mr. Chairman, recommending improvements in servicing and processing cannot be relevant if there is a determination to make cuts of this magnitude that will destroy the Farmers Home delivery system.

The Farmers Home programs have enjoyed bipartisan congressional support for 44 years. We are hopefull and we are ready to demonstrate to our Senators and Congressmen the need for continuing these housing programs at a realistic level which will assure the continuation of a national program.

The articulated premise for cuts in Federal housing programs is that they can be replaced by the private sector. We strongly disagree with such assertions, especially in regard to rural America. The lack of availability of private capital in rural areas has required the Farmers Home Administration to step into this void to provide access to reasonably priced credit. Despite the growth in branch banking, over half the counties in America do not have savings and loans. The single-family housing loans of those S. & L.'s that are in rural areas average only $49 per capita compared to $1,213 per capita in large metropolitan areas. This small volume of lending in rural areas means high servicing costs and low incentive for institutions to enter these markets. The borrowers are not less "worthy" than urban borrowers, just more expensive to service. For instance, a study of home mortgage credit in Kentucky noted that neither banks nor S. & L.'s made loans outside their home counties for clearly logical reasons: difficulty in determining loan values and the value of collateral and the feeling that legal problems, if any, would be difficult to resolve.

Other Federal housing programs have been ineffective in our rural communities. The FHA single-family guarantee program makes less than 10 percent of its loan in nonmetro areas and most of those loans are in distant suburbs that are not truly rural areas. Farmers Home, with its effective delivery system, is a critical tool to provide that needed accessibility to credit. Our association strongly believes the Farmers Home programs are the only housing programs that can bring housing opportunities to rural America. In addition, Farmers Home programs are limited subsidy programs. As the borrower's income goes up, the subsidy is reduced. When the home is sold, the Federal Government "recaptures" the subsidy out of the home's appreciation. Unfortunately, the nonsubsidized loan guarantee program patterned after the FHA program of making market rate loans with a Federal guarantee, did not get funded this year. We are concerned that without such programs, the viability of a rural housing industry and its efforts to improve rural living standards will disappear.

DELINQUENCIES

The decentralized Farmers Home program has placed numerous duties on the limited county and district staffs. Staff at that level are required to be experts in numerous areas of housing servicing and processing as well as operating other programs administered by FmHA. The problem that has been foremost in the minds of those in charge of the Farmers Home Administration is the problem of delinquent loans. The administration has correctly made plain that the Government, like any creditor, will not be made a patsy. To fully concentrate on the delinquency problem, the State offices have declared moratoriums on sales of new homes, though not FmHA inventory, in counties where delinquencies are above the national average. NAHB set up a task force of rural builders to look at the delinquency problem and to offer a series of recommendations to FmHA to ease the problem.

First, the task force discovered that the delinquency problem is greatly overstated. It must be noted that only persons who have been unable to get credit elsewhere can receive FmHA loans. Hence, they are the highest risk buyers. Second, the definition of delinquencies used by FmHA would make Ebenezer Scrooge blush—15 days late or $10 short is considered delinquent. Whereas the delinquencies are reported to be over 20 percent, less than 10 percent of the loans are 3 months delinquent and the cumulative loss of the program is a minuscule 0.14 percent.

IMPROVING SERVICING AND PROCESSING

Our task force reviewed the servicing and processing of FmHA and has made several recommendations to make housing more affordable, reduce costly delays, and allow the work force of FmHA to concentrate on problem areas, such as delinquencies.

To summarize, our recommendations are: Hire FHA/VA-approved inspectors on a fee basis; hire FHA/VA-approved appraisers on a fee basis; hire private collectors; hire private attorneys to handle foreclosures; form a task force to assist in areas of high delinquencies.

Our general suggestion to ease the burden on the county and district staffs is to delegate as much work as possible to private professionals on a fee basis. Paying qualified professionals could speed up the processing and give FmHA employees an opportunity to concentrate on those areas that the private sector cannot adequately handle.

LOWERING BUILDING COSTS

The experience of our single-family builders has pointed to certain changes that could be made in the program to make it more efficient and the housing more affordable. Useless reviews only add to the cost of the housing and make it less likely to build homes that are available to the majority of people in rural areas. Our recommendations in the program operations area include: Reduce the reviews on septic tank approval. It seems like a small problem, but it's a large problem in rural areas. Accept HUD/VA-approved subdivisions for FmHA on an expedited basis. All Farmers Home subdivisions have to be approved by Farmers Home, yet the criteria for HUD and VA-approved subdivisions is tremendously more detailed and involved than Farmers Home. Remove unnecessary minimum property standard requirements. And end discriminatory use of energy standards, especially for sunbelt States.

Our first suggestion deals with alternative treatment system approval. Today, to get a septic tank approval for more than four homes, the plan must be approved by the county, district, and State offices of Farmers Home. It requires State health department approval and must even be sent to Washington to be checked by a Farmers Home staffer in the Nation's Capital. This repetitive review was instituted in the early 1960's after a significant number of defects were found in septic tanks. However, a review by Farmers Home today will show septic tanks installed over the past 5 or 6 years have not had the problem of 20 years ago. This is due to EPA and State requirements as well as much tighter FmHA regulations. However, there is no reason for such approvals to be sent up and down the chain of State, local and Federal governments. A local FmHA review and the State health department approval should be sufficient. This would limit builder frustration and save significant funds and time.

The additional requirements of the FmHA minimum property standards cause considerable added cost to rural housing. For instance, our New Mexico builders have told us the thermal standards are unnecessarily stringent in the lower elevations of the State. The State office of New Mexico requires unnecessary paving and gutter that add over $2,000 to the cost of the house. I am told that tomorrow at the hearing in Santa Fe some local builders with hands-on experience will testify on how the regulations are interpreted locally and the effect on housing costs. However, I must mention that anarchy exists in many States in their handling of minimum property standards. First, although the FmHA market and legislative intent is to aim at a market priced below FHA and VA, the Farmers Home MPS's are more stringent. In some States Farmers Home county staff ignore the FmHA minimum property standards and require even more expensive appurtenances such as garages, brick instead of aluminum siding, and so on. If the Agency does not control this problem there will be many States without affordable Farmers Home housing. Congressional direction might be needed in this area. Generally, we believe State codes should replace Federal FHA/VA and FmHA minimum property standards at no cost to safety but at a significant improvement in affordability.

All the recommendations in this testimony derived from our task force meetings and have been discussed with the top staff of Farmers Home. Their door in Washington has always been open to us. Their initial response to these suggestions has been positive. We will continue to work with their staff and the Congress to make further improvements in what we believe, despite some problems, is the most effective Federal housing program.

Mr. Chairman, next week our association will hold its annual convention in Las Vegas, Nev. I will report to the members of my committee on the deliberations of the subcommittee. It is clear from the numerous phone calls I have received from my committee members during the past 2 weeks that the major concern is going to be the Farmers Home budget proposals. I look to you for some ray of hope that on rural housing issues the Congress is interested in improving rather than crippling these programs.

Thank you for the opportunity to testify today. Any questions that you have, I will be happy to answer if I might.

Senator SCHMITT. Mr. Rogers, of course, what we have before the Congress are proposals, and the Congress has considerable discretion in what it accepts and what it doesn't accept and what it does. However, the problem here is, and the administration is obviously looking at it, is that in spite of your statement that Farmers Home has an effective delivery system, it's not obvious, it's particularly not obvious in this State that it has an effective delivery system in spite of the new efforts that Jim Hudson has instituted to improve it. And you seem worried about the nonsubsidized loan guarantee program not being funded, but it's never been used. And so we have to look at what we're doing today and try and figure out why it has never been used, why there is an effective delivery system in some States such as New Mexico. And unless we can come up with some answers and some improvements, we can't, none of us, can justify continuing the level of funds that are going forward. That's our problem.

Mr. ROGERS. Yes, sir.

Senator SCHMITT. People have to be served with money, just throwing money out there doesn't serve anybody.

Mr. ROGERS. Well, as far as effectiveness of the program as compared to HUD, FHA, VA and rural communities, it has been effective as compared to those agencies. The guaranteed loan program, when it was at a $500 million funding level, the State of Oklahoma was basically the only State that used it effectively, and they did it through their industrial revenue commission, and there were several prototype plans when that program was funded that were helping it go forward. It has been a tremendous struggle, as the mortgage banking gentleman alluded to, to try and work Farmers Home systems and methods with the private sector. I feel like organizations such as—

Senator SCHMITT. Well, we're going to have to improve all of that before I can go back to anybody and say, "You ought to keep money in Farmers Home at the level it's had." And, in particular, I know the homebuilders may not fully concur, but I think in particular we seem to be concentrating on building homes rather than seeing that people have access to adequate or improved houses.

Mr. ROGERS. We support the remodeling programs and any effective program. Besides being homebuilders, we are remodelers in refurbishing homes.

Senator SCHMITT. I understand that's big business for homebuilders now.

Mr. ROGERS. That's about the only business for homebuilders right now.

Senator SCHMITT. Ms. Garcia, would you proceed?

STATEMENT OF ROSE GARCIA, EXECUTIVE DIRECTOR, TIERRA DEL SOL HOUSING CORP., LAS CRUCES, N. MEX.

Ms. GARCIA. Thank you very much for the opportunity to have Tierra Del Sol Housing, which is a private nonprofit corporation, to provide input to you. I am Rose Garcia, director of Tierra Del Sol, and I've been with the corporation for a little over a year.

The testimony that we had prepared was rather difficult because we've been in the business for about 10 years, we were a product of Farmers Home from 10 years ago when the 502 program was implemented and, in particular, the self-help program. My board is comprised primarily of, first of all, farmworker families originally and very grassroot people that saw a real need for providing housing out there in the remote areas. And the board at that time felt that if they could develop a corporation to utilize these funds that were available, that would be ideal.

SELF-HELP HOUSING

In the 10 years that Tierra Del Sol has been around, we've developed 200 units of self-help housing which is a method whereby the families build their own homes. We provide the construction expertise and develop the land and make the program available to the families.

I would like to address some of the issues that you were concerned about; in particular, where you asked the question, "Is credit available in rural areas?" I don't think that it is for the families and the type of clientele that we deal with. We're dealing with the families that Jim Hudson talked about, these are the ones that make around $15,000 and they have very unstable-type employment, many of them are agricultural workers, they are not good credit risks in many cases. We package a lot of families' applications, and we may get one good one out of three if we're lucky. The need for housing, you know, has definitely been demonstrated over and over to you and to everybody else in the State. The sources are there, the money is there but the system is just not working. In my experience in a year, it's been a difficult year but we have finished about 88 units in the last couple of years, and those units mortgaged out at an average of $28,000 with land, and this is the home that the family builds themselves. Self-help housing we very much promote because it is an alternative to providing affordable housing to these families. These are nice 1,100-square-foot houses with one bath and three-quarter right now, and they have the brick veneer and are very nice homes. It is a good long-range investment for the Federal Government. It has a lot of good points. It provides intangible advantages to the families to improve their quality of life, and I can go on and on on things, good things that have happened.

Senator SCHMITT. Does that $28,000 include the administrative costs?

Ms. GARCIA. No, that's the actual construction and land costs. The administrative cost was $5,400 per unit.

Senator SCHMITT. Per house?

Ms. GARCIA. Yes. And we have a project in the mill right now and we project the same TA costs. We have done a lot of streamlining within our program. But, anyway, we feel that the credit is not available.

Senator SCHMITT. When you say administrative costs, is that total, that's salaries and overhead?

Ms. GARCIA. Right, for us to hire a construction supervisor and administer the grant. Farmers Home has what's called a section 523 technical assistance grant that goes hand-in-hand with the section 502 mortgage money.

So, you know, we feel that the sources are there but the program—you know, Tierra Del Sol, I guess, has done more self-help housing than anyone else in the State, it has a track record. There's about eight programs right now trying to get self-help housing off the ground, but they have faced innumerable difficulties. I think the one in Deming just gave up out of frustration recently, which is a real shame.

Senator SCHMITT. What are those difficulties?

Ms. GARCIA. I don't know what those are.

Senator SCHMITT. Well, you said they face innumerable difficulties. Can you summarize what they are?

Ms. GARCIA. From what I observe, mainly the problem is dealing with the staff. We feel that a lot of the problems are the accountability of the local staff. We have a problem with cooperation.

Senator SCHMITT. Are you talking about the local Farmers Home staff?

Ms. GARCIA. Yes. Since Jim Hudson has come in, things have improved somewhat, but we have a project we've been trying to get off the ground for almost a year now, we have 48 lots sitting out there just collecting tumbleweeds. And part of it is the sewer system problems, and it's because of what Mr. Rogers mentioned, all these approvals and reapprovals and reviews. So, now we're trying to get that squared away. And the latest thing is that you have to come up with new house plans, so that will delay us even that much more. So, it's just a conglomeration.

Senator SCHMITT. The new house plans, is it because of a change in standard or what?

Ms. GARCIA. No, I think it's just a change in philosophy and, you know, the effort of a State office to try to enforce the standards that have been on the books, yet we feel that we have been pretty close to the standards or very close. That's our main problem right now, is the self-help, trying to get the new project off the ground.

Senator SCHMITT. Have you generally found that as the project proceeds you are unable to complete the number of units we originally planned due to the costs of just being unable to control costs of inflation or whatever reason?

Ms. GARCIA. Well, right now, because of this year delay, we have had to increase the lot costs by $500 because of the interest. We had to refinance the lots about a month ago, and we couldn't finance them with the local institution because of the interest rate, so we had to go to the Housing Assistance Council, which is a private nonprofit also that has HUD moneys to provide land development at a lower interest rate. So, we couldn't keep the money home for financing, we had to pay $42,000 of interest this last year alone.

Senator SCHMITT. Please proceed.

Ms. GARCIA. Anyway, that's our stand as far as Federal credit in the rural areas, we feel that our families just don't have that available.

In answer to your question, "Does Farmers Home regulations add unnecessarily to the cost of housing built under the programs?" We feel yes. And, also, Mr. Rogers summarized them very well, the minimum property standards, the thermal codes, the utility reviews and over-reviews and on and on. I concur totally with what he mentioned. We're having the same type of problems.

And you also wanted to know, "How should Federal assistance be provided to most efficiently aid rural development?" The system is there. The Farmers Home, we think, is a very good system, basically. I think some of the main problems have been—and I think you have even touched on them when you worked with Sunland Park to try to help them get some money to get that water system going. After 12 years that they've been having to boil their water to drink and having $12 a month minimum water rates, those are the highest rates in the county, you know, and it takes congressional action to get funding for just a basic service. It's a disgrace that in 1982 people don't have water to drink. These are communities that have been there for years and years. And then when I started researching the money that Farmers Home gets for water and sewer projects, I find out that in 1979 and 1980, you know, more than half of the funds for loans and grants were returned. And the grant funds they do a little better, you know, because there's no payback so it's more in demand. But the loan funds, you know, Sunland Park could have probably gotten this back in 1979 when we returned $4 million, except that Sunland Park is in that arbitrary redline area. And that's another item that really needs to be looked into, because the redline districting is very arbitrary by the State office. The Sunland Park people have been trying for years to get help. And Anapra, they have been crying for help to local governments and to everybody else and they can't get anything.

The other thing, as I mentioned a while ago, is the problem with cooperation of the staff. In my impression, there is no accountability. You know, the State director comes in and he tries to do his job, he tries to implement good management procedures and yet he's caught up in the civil service system where you have to take an act of Congress to get rid of a staffer, and here a State director is in for 4 years because he's a political appointee. So, it's very difficult, he's trying to do his job with his hands tied.

In answer to the concern about delinquencies, New Mexico is probably one of the highest States in delinquency rates. You know, it's probably because of the economy, for one thing, and the other thing is because Farmers Home needs some kind of a system to make sure the bills are collected.

Senator SCHMITT. You think it ought to be, as suggested, a for-a-fee private system?

PRIVATE COLLECTION SYSTEM

Ms. GARCIA. I think that's a very good alternative. We have tried the collection system. Farmers Home set up a demonstration program called the section 525. It's an assistance to families that are delinquent. It didn't work out. It was a short-term program. We got caught up in all these regulations. The regulations of the program said that the county office, once they determined that a family is delinquent, if you are delinquent they will send a letter and then they will tell you you are delinquent, and if you are interested in getting help, in getting counseled, sign this letter and return it to us. And most of the families in Dona Ana County have a hard time understanding English, you know, or even some of these Federal forms, so they wouldn't return it. So, without that form, that letter of consent, our staff couldn't do their job. They would go door to door to see if they were delinquent, and it was like an Easter egg hunt. So, finally, you know, I came upon the Freedom of Information Act, and so I finally ended up having to go through the whole channel, to the national office to get them to come down and say, OK, under the Freedom of Information Act you can give Rose the information. So, it took like 6 or 8 months to finally get that ruling. By that time we had already not done our job because we couldn't find these people that were delinquent. That's one issue concerning delinquency.

Senator SCHMITT. Schmitt's law of 59 is: It's a rare bureaucrat that tries to work himself out of a job.

Ms. GARCIA. Right. Anyway, the home rehab we very much support because I must get a half a dozen calls, on an average, a month, and these are from many elderly families and they are in very remote areas. Right now we have the county community development block grant for home rehab programs, but they don't even put a dent into what the needs are. Then we start to looking at what the home rehab money is, because I've been trying to set up a home rehab program, maybe a self-help rehab or something like that. Come to find out, half the money has been returned on the 1 percent loans. So, you know, this, again, goes back to the staff. I'm convinced that the Farmers Home has historically featured—I mean, they are traditional for having this feature of being good in providing outreach and direct lending. This should be exercised upon the staff when they first come in, you just brainwash them, you know, they've got to learn that that's what the job is going to be, they've got to be sensitive to the people that have the need. There's got to be some kind of an incentive that the Farmers Home staff will be encouraged to make sure that this money gets spent. The needs are there. It's easy to spend that money.

Senator SCHMITT. We're going to have to press on, Rose.

Ms. GARCIA. There are several other things that we see as a problem, you know, and we have made some recommendations.

Senator SCHMITT. You are going to make your testimony available to us; is that correct?

Ms. GARCIA. Yes.

Senator SCHMITT. Your complete testimony will be part of the record.

Ms. GARCIA. Yes; only one last thing that I can mention is that possibly Farmers Home has overextended their area, you know, the scope of what they are servicing beyond—I think they should stay within rural housing and working with farmers and providing community facilities. But the one feature that should really be looked at is economic development. The type of families that we deal with need jobs, otherwise they can't pay for that house. And the ones that do barely qualify, they have jobs, but maybe they won't have them very long. So, that's one area that we thoroughly emphasize.

Senator SCHMITT. Thank you very much, and we'll make your testimony a part of our record.

Now, our final witness today is James Anthony of Anthony & Associates in Albuquerque. Please proceed.

STATEMENT OF JAMES W. ANTHONY, PRESIDENT ANTHONY & ASSOCIATES, INC., ALBUQUERQUE, N. MEX.

Mr. ANTHONY. Mr. Chairman, before I start my written statement, I would like to make a comment about one item that I've heard today, and that has to do with the rehab versus production of housing.

REHAB VERSUS PRODUCTION OF HOUSING

A very short comment. I spent about 10 years as the attorney for the city of Albuquerque and the urban development program, in which we spent approximately $3 to $4 million a year of Government money on the rehabilitation of homes, for a total of about $20 million when I left that agency several years ago; therefore, I do have some experience with the rehabilitation program. I might say that while I support rehabilitation as a program that is needed to even think of it in concept as a replacement for the production of housing, to me, is an idea that simply has no place either at this discussion or in Congress in Washington. Rehabilitation is not a long-term investment and should not be looked upon as such and, therefore, when you are talking about investing tax money in rehab versus new housing, you're talking about apples and oranges, quite bluntly.

Senator SCHMITT. Well, you'll find a number of people in Congress disagreeing with you. It's not that there shouldn't be a new housing program, it's just that that program is ineffective and not servicing a significant number of people and you better figure out how in the short term you can service the largest number of people.

Mr. ANTHONY. For the longest period of time I hope they would add to that, Senator.

Senator SCHMITT. Well, yes, but until you work out a program, a housing program that, in fact, can serve for a long period of time, you still have a problem, you can't keep pouring money down a rathole.

Mr. ANTHONY. Well, I really didn't want to go too deep into that, but let my concerns be known, Senator.

Senator SCHMITT. Yes, I should add that right now in these housing programs there's something like a $250, $260 billion unfunded obligation, liability the Government has already today.

Mr. ANTHONY. Yes, I realize that.

Senator SCHMITT. That's in the section 8 program, which is another problem.

Mr. ANTHONY. Well, if I may, I'll go on to my written statement. My name is James W. Anthony. I am president and general counsel of Anthony & Associates, Inc., located in Albuquerque, N. Mex. I have attached a personal résumé to the written statement that I believe you have that was sent down from Albuquerque yesterday, I believe, concerning my personal background prior to forming Anthony & Associates about 2½ years ago. The company is a New Mexico stock corporation owned by myself and other New Mexican residents. The primary activity of my company is the development of multifamily housing. We have been active in HUD housing programs, Farmers Home housing programs, resort housing programs, and conventional housing programs in the State of New Mexico. We currently own and operate a 56 unit section 8 assisted and Farmers Home financed apartment complex in Belen, N. Mex.; a 52 unit section 8 assisted and Farmers Home financed senior citizen project in Lovington, N. Mex.; and have under construction a 60-unit elderly complex in Gallup, N. Mex.; and a 48-unit moderate-income complex in Bloomfield, N. Mex., with financed provided by Farmers Home Administration.

With this background I want to point out that we are also involved in other types of housing development such as condominiums in Angel Fire Resort in Taos, N. Mex., rehabilitation of a conventional market rate apartment project in Albuquerque, a life-care project, for the elderly, in both Santa Fe and Albuquerque, and soon a luxury high rise in downtown Albuquerque. I mention this background because my comments should be taken as from one interested and involved in the Federal housing programs but is not dependent upon them.

ELDERLY HOUSING

If I am able to address no other issue before you, I would stress my concern to you for the housing programs which affect the elderly.

If it were in my power to do so and thus make any changes in either Federal law or regulation, it would be to insure that funds were available for the development of housing for this growing group of needy Americans.

Both the section 8 HUD program and the rental assistance program of FmHA have proven to be good or excellent vehicles for the provision of this housing; however, since the implementation of these programs, the laws and regulations have slowly but surely been changed both by Congress and by regulation by the HUD and the Farmers Home Administration to the point that such housing is now difficult if not impossible to develop. I understand the basic reason for most of these changes; they were brought on by the fact that most developers, most communities, and indeed most elected officials could support an elderly housing project without many problems. The result was that low-income family housing programs were everyone's last choice and thus were not being developed. In order to solve this problem HUD, as an example, simply made less money available for elderly housing so that in the last 2 years the New Mexico allocation for elderly housing has been so small the program is practically nonexistent. In fact, 2 years ago I had to agree to build approximately 58 units of family housing near Albuquerque to receive a 30-unit elderly allocation for housing for the elderly. Due to the mortgage finance problems of the last 2 years that we're all familiar with that project is now dead; at the time I could have obtained financing for the elderly units but not for the combined project. This is more a sad comment on the attitude of lenders and investors; however, it is also a factor that those of us in housing must understand and deal with.

In the case of the Farmers Home Administration I do not believe they have set out to limit elderly housing development; however, current regulations concerning the selection of proposed developments do in fact work against elderly housing; i.e., a proposal receives substantial points if three- or four-bedroom apartments are proposed and hardly any if one-bedroom apartments are proposed. Since elderly projects are for the most part one-bedroom apartments such projects would always be lower ranked in the selection process and therefore it would be questionable whether funds will be available for such projects.

Senator SCHMITT. Excuse me. If I could interrupt, Jim. Are you saying that the fact that money was returned from Farmers Home in New Mexico had no bearing on this, or you just couldn't get the project done in the time available or what?

Mr. ANTHONY. No; it was not so much the money was returned. If we had known that there was going to be excess moneys, probably we would have put in proposals for elderly housing projects with the idea that we could have then received an allocation. The problem with developers——

Senator SCHMITT. That's been the pattern in New Mexico, that there's always money left over at the end of the year.

Mr. ANTHONY. Well, I don't think that's true in the section 515, Senator. Maybe it is in the 502. The last few years that I've been involved, it seems like they have run out of money towards the end of the year. Now, you've got to understand, I'm not involved in the process so I really don't get a report on how much of this money is available, all I know is that they tell me. We don't have the money and you can't have the money.

Senator SCHMITT. Please proceed.

Mr. ANTHONY. But if I could digress on what you asked me. The answer to your question is that unless I believe that there is going to be money available, it's very risky for me to invest the money that I have to invest in order to develop a project. And something that has not been mentioned today is that we are talking about the rural rental housing program. There is a substantial out-of-pocket expense that is involved in developing any kind of project over, you know, a four-unit complex. We have to pay our architects whether the project gets funded or not, as an example. We have to pay ourselves if we spend 2 weeks in Carlsbad, or wherever it may be. So, the point being that there is a lot of front-end expense, and we don't feel the risk is there that we can take, we can't do that.

Anyway, to continue. I suppose that my suggestion in this regard is that some thought on the national level should be given to either encouraging or insuring the development of elderly housing rather than allowing it to simply be swallowed by the general problems related to low-income housing and development. This same concern and approach is also applicable to the moderate income elderly who now have few alternatives; particularly those living in rural areas. They are not prospects to purchase two- or three-bedroom houses on an acre of land; generally they own a home which is now too large for them to take care of; they are above the income level when assets are counted for assistance from HUD, section 8 or FmHA rental assistance projects; yet they cannot afford new housing or cannot qualify for conventional financing due to their income and age. The perfect answer is a program such as the 502 program with interest subsidy to bring the payments within their moderate income range in a complex of, as an example, townhomes developed for and limited to the elderly so that we can provide amenities that the elderly require in terms of certain facilities, such as grab-bars in the bathrooms, etc. However, that program does not exist as a target program, and with existing rules would almost be impossible to develop.

If I might digress. One reason I say that is that, as an example, while the rural rental housing program, by statute, allows you to discriminate on the basis of age—in other words, we can rent to a person who is over 62 and restrict all others—that same law does not exist in terms of the statute when you read the 502 program rules. Therefore, technically, if I were to develop an elderly housing project utilizing the 502 program, I would currently have to offer it for sale to anyone that walked in. While that may not sound too bad, if you are really trying to truly provide housing for the elderly, that really is not a good situation.

Senator SCHMITT. Can you provide townhouse-type building under 502?

Mr. ANTHONY. Yes, sir. They do have now the flexibility to provide that type of housing, and I think that's what we're going to have to go to in rural housing to get our costs at the right level.

Senator SCHMITT. Have you made an application under 502 to do just this?

Mr. ANTHONY. I'm preparing one. But I do know what my problems are at this point.

Senator SCHMITT. We're going to have to move on.

Mr. ANTHONY. Yes.

Senator SCHMITT. Airplanes don't wait for us.

BUILDING CODES

Mr. ANTHONY. I'll quickly summarize the end here. I wanted to briefly comment about one other area that's national in scope, and that I think has been mentioned, and that has to do with the conflict and interpretation of the various codes or standards that we have to deal with when we are building. We not only have to deal in my case, usually, with the minimum property standards, we also have to deal with the State of New Mexico in the rural areas in terms of their own building code. Believe it or not, the two do not necessarily jibe, nor are they interpreted the same by the various officials that look at it. As I mentioned in my statement, I had a case recently where all four architects involved, not just one, but all four, had four different interpretations. We were able to work that out, but only after a great deal of time and trouble. What I do suggest in my written statement is that if a building code—and that's what we're talking about, establishing a minimum standard in terms of having a decent, safe, standard place to live—if the uniform building code fits that criteria and is found acceptable by Farmers Home or HUD, it seems to me that at that point we ought to turn that process over to those code authorities and let them deal with our architects and builders in terms of complying with just one code and not two or three or four.

With that, I will close and, of course, be happy to answer any questions you have time to ask.

Senator SCHMITT. Well, I'm afraid we've just run out. Let me ask you, right now, a question. A major Indian housing authority has asked me to try to get them exempt from Davis-Bacon. Do you think Farmers Home 515 program should be exempt from Davis-Bacon?

DAVIS-BACON EXEMPTION

Mr. ANTHONY. Well, maybe Mr. Hudson may be able to correct me, but I think the 515 program is exempt from Davis-Bacon except unless you have a section 8 assistance; is that not correct?

Mr. HUDSON. Some of them are, some of the are not.

Senator SCHMITT. Do you have waiver authority, Jim?

Mr. HUDSON. I don't think that all of our projects have to go Davis-Bacon. I may be wrong.

Senator SCHMITT. They have to do with the size?

Mr. HUDSON. They have to do with the size; right.

Mr. ROGERS Could I address that?

Senator SCHMITT. Yes.

Mr. ROGERS. They are exempt from Davis-Bacon unless they do have section 8, and that is national policy for Farmers Home.

Mr. ANTHONY. Now, if I could, Senator, to add to that, since I've developed most of my projects with section 8, I can assure you that the cost is considerably more with Davis-Bacon than it is without it.

Senator SCHMITT. My Indian friend estimates that they lose a third of the units they could build just because of that requirement.

Ms. GARCIA. We had a project in town that required Davis-Bacon and it was, like, 12 percent difference.

Senator SCHMITT. I wish we could go on, and we will in Santa Fe tomorrow. Anyone who does desire to give testimony and has not had an opportunity to testify will be allowed to do so, we will keep our record open 6 weeks. This is going to be an ongoing effort in Washington as well as out here and elsewhere in the country. Obviously, there are lots of problems. Let's hope that through this year we can get some of them resolved by the new legislation.

Thank you. The hearing is adjourned.

[The proceedings were adjourned at 11:30 a.m.]

[Additional material received for the record of this hearing follows:]

CHUSKA DEVELOPMENT CORPORATION, INC.
GENERAL CONTRACTING
CONSTRUCTION MANAGEMENT
ENGINEERING & PLANNING
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PREPARED BY

WAYNE J. ORCHARD

A casual observer of existing housing throughout the Navajo Reservation would conclude that very little has changed, or improved, during the past century. Away from the main roads, along dirt trails to the valleys and hills, the average house is a hogan, with perhaps a shack or leanto attached. In this residence, which usually contains one room of about 200-225 square feet, it is not uncommon to find two or more families living together. Most do not have the minimum sanitary accrutements such as water, electricity or indoor plumbing. Such conditions are not unique to the Navajo Nation but are as bad as, or perhaps worse, at some of the northern or northwestern Tribes. There have been attempts to improve housing in the more populated areas; ie, Shiprock, Window Rock, Kayenta. These attempts, in the majority, failed in that they created overnight slums. A most notable example can be found along highway 666 at Shiprock. With good reason, many of our Native Americans view honest builders and contractors with skepticisim because of what has happened in the past. However, there are honorable builders (both white and Indian) who offer honest value.

In mainstream America, Mortgage Financing is generally available for all income stratas, even though the current interest rates are restrictive. In rural America, and especially in Native American areas, help is limited to the low income only. Even that help is severely restricted due to the minimum property standards prescribed by the FmHA as well as the FHA and VA.

It is estimated that there are about 20,000 Navajo families who qualify for low income housing. These families may qualify for either a direct loan or a subsidized loan from the FmHA (Farmers Administration). To qualify for a direct loan, the family income can not exceed $15,600.00 annually. To qualify for a subsidized loan, the family annual income can not exceed $11,200.00. It is further estimated that there are an additional 30,000 families that have incomes in the 30-45 thousand dollar ($30,000.00) bracket. In rural America these families are forgotton! Regardless of need or credit rating, these families can not buy suitable housing because Mortgage Financing is not available because their income exceeds that allowed for FmHA and HUD housing. Furthermore, they can not acquire a guaranteed loan through the FHA (Federal Housing Administration) and/or (VA) Veterans Administration because of the restrictive minimum property standards prescribed by those agencies.

There is another avenue of financing available. This is the Revolving Credit Program administered by the BIA, and is referred to as "BIA Credit." When funds are available a Navajo applicant can apply for a $30,000.00 loan. The interest rate is that prevailing within a fifty mile radius of the Reservation. Under certain circumstances the loan amount can be increased to $50,000.00. Currently, funding is not available in the program. The last loan made from this fund was in June, 1981.

In general, minimum property standards for FHA and VA(as well as FmHA) specify that the building site: (1) be located on an all weather road (2) have electricity and (3) be on a water system. Septic tank systems are usually acceptable in lieu of a sewer system.

Although all weather roads bi-sect the Navajo Reservation, the majority of families hold traditional lands that are distantly removed from these main thoroughfares. Presently, many homesites are located off the main roads, requiring that water be transported and they are also without electricity. Nevertheless, these people deserve and need quality shelter. The FHA, VA, and FmHA should be allowed to consider alternatives from the minimum property standards.

The requirements for all weather roads should be waived. One should take into consideration the fact that traditional lands are held religiously by Native Americans Abandonment is almost unheard of. Families continue to live on their land as they have for generations, regardless of the hardships incurred.

Alternative sources of power are now available through solar technology and wind generators. The systems should be authorized as reasonable substitutes for the power and heating requirements specified by the minimum property standards. The federal subsidies now in place for solar installations should be extended and expanded as necessary to allow subsidized homes in the rural areas through FmHA, FHA and VA guaranteed loans.

Where a water system is not available cisterns should be considered a reasonable substitute. Cisterns have served well in the past, - and still do, in many parts of the world, and on numerous ranches and farms in the southwest.

These are all viable alternatives and deserve consideration in the interest of allowing the present generation to have modern, warm and comfortable homes.

Eventually, these alternatives may be replaced by permanent or superior systems. However, until that time, thousands of families can benefit from a relaxing of the minimum property standards.

Federal guarantees should be combined with Tribal guarantees, under a new agreement, that could be tailored to protect the lender against default. Recognizing that it is more difficult to correct a default on reservation land, the lender is placed in considerably more jeopardy and inconvenience, and extraordinary measures must be undertaken by the good will of the Federal Agencies and the Tribe to give added protection to the lender. Such measures are easily justified if we equate the reservation with emerging Third World Countries whom we support.

Another difficulty is that of attaining a homesite lease. In many instances a family may meet all requirements for a home mortgage but will not have a homesite lease, or land on which to build. It is not unusual to hear of 3-5 year delays in obtaining a homesite lease and as much as eight years has been experienced. This is a Tribal problem that has played a significant role in the substandard housing that exists.

Construction costs have accelerated at an alarming rate over the past decade. In rural areas these costs are even more alarming. The reasons are obvious, but they generally fall in two catagories; (1) lack of material (transportation costs and inconvenience) and (2) labor (inconvenience and travel). One answer to quality homes in rural areas is the factory built or modular homes (not to be confused with mobile homes or trailers). Several construction methods are now in use at housing factories. Some use assembly line production where the house is moved from one end of the factory to the other. When it reaches the end of the assembly line the house is completed. Other companies, not quite so sophisticated, build the homes on stationary supports. When a house is completed, regardless of the construction methods, it is moved on steel beams and dollies by tractor to the building site where the footing and foundation have been prepared. After the house is placed on the foundation, utility hook-ups are made, touch-ups, parking slab, sidewalks, and landscaping is completed and the home is ready to move into within 4-6 days. The advantage to this type of contruction is that the labor force is concentrated, material is protected from damage and pilerage, and a tighter control on quality can be maintained. All of which translates into a home that will exceed the quality of a home built on-site and at a lower dollar cost. In these days of soaring construction and labor costs the factory built home is the method of construction whereby control can be maintained, both in cost and quality.

To promote this industry, individual States must act with extreme caution when enacting laws that restrict the movements of houses on the highways. With proper planning and escorts, these moves can be made safely with a minimum of inconvenience to the motoring public. The average motorist may encounter an occasional house movement that will cause a temporary inconvenience. This temporary inconvenience is a small price to pay when compared to the benefits that accrue to a new home owner and when related to the additional employment opportunities the industry creates.

Conventional mortgages and private investment funds are also avenues which should be opened for the continued economic growth of the reservations. The standard homesite leases and business leases now in effect on the Navajo Reservation are too restrictive in their covenents and allow no direct recovery of assets in case of default. A guarantee system initiated by either the Tribe or the U.S. Government would see a large upswing in private in-investments on Indian lands.

In summary, it is recommended that the minimum property standards be waived in favor of alternatives. That current Mortgaging Financing guarantees be extended by mutual agreement of the Federal Government and the Navajo Tribe. It is further recommended that the advantages of using quality manufactured homes in rural America be explored and promoted. It is recommended that the Tribe and the U.S.Government develop a guarantee program to provide outside investors recourse to recover their assets in cases of default.

UNITED STATES SENATE
Committee on Banking, Housing & Urban Affairs
Subcommittee on Rural Housing & Development Hearing
Las Cruces, New Mexico January 14, 1982

TESTIMONY OF
William Adair Gossett----New Mexico
Gossett Management Company

Senator Schmitt--Senator Heinz--I am pleased to have the opportunity to respond to the questions and topics outlined in Senator Schmitt's letter of December 16, 1981, requesting my comments on the development of rural housing (with my comments particularly pinpointed to New Mexico).

I have been an independant businessman for the past 41 years in the State of New Mexico with interests in retailing, insurance and housing development. For the last 15 years I have specialized in subsidized housing development for private ownership, pioneered the first 221D3, tax exempt bond financing, and transfer from non-profit to private ownership of housing projects. Gossett Management Company was one of the first certified HUD management companies in New Mexico. My wife, Anita, and I like this business and feel that we have contributed substantially in providing for the safe, sanitary and decent housing for over 200 families.

The following are the answers to your five focus issue questions:

1. Is non-federal credit available in rural areas?

   I am not aware of any reasonable permanent long term financing for rural housing or rural development. Generally, because of high mortgage interest rates coupled with limited mortgage funds, non-federal financing is, effectively, not available for rural families of low and moderate income for housing purposes.

2. Do Farmers Home Administration regulations add unnecessarily to the cost of housing built under their programs?

   The regulations as I understand them do not, it's their application and local interpretation.

Subcommittee on Rural Housing & Development Hearing
Testimony of
William Adair Gossett
January 14, 1982

2. (Continued)

   Unnecessary burdensome and time consuming procedures and processing requirements, coupled with inadequate FmHA staffing, results in undue delays which significiently increase overhead cost (interim taxes, int., etc.) for steadily increasing construction costs.

   Our twelve unit Loving Project, Casa de la Flor, was originally submitted at a developed turn key cost of $294,823.00. When finally accepted, the final approved development cost was $340,500.00.

3. Is the organizational structure of Farmers Home in New Mexico an obstacle to the speedy development of housing?

   It shouldn't be, but it has been. In the past, there was not a clear policy or commitment towards providing housing in New Mexico.

   In my opinion, all multi-family housing projects should be processed at the District level. The State Director should have absolute control of all allocations of units, funding, rental assistance, and final approval of applications.

4. What special obstacles inhibit the use of federal programs on Indian loans?

   I have limited information, but it is my opinion that the leasing of lands would be a problem and deter more activity. As you know, pueblo and/or reservation land is not individually owned but leased to and by the individual. The Colonias De Santa Fe project, North of Santa Fe, New Mexico, is a horrible and expensive example of attempting to develop land and housing on Indian land.

5. How should federal assistance be provided to most effectively aid rural development?

   (a) Streamlining procedures to be applied at County and State level to drastically reduce processing requirements and processing time via such reduction of "Red Tape". The streamlining of procedures and processing time is long overdue. The reduction of "Red Tape" is consistent with the present administrations avowed policy in this matter.

Subcommittee on Rural Housing & Development Hearing
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5. (Continued)

(b) The FmHA Washington Office should embark on a strong, positive "Production" program for processing applications to be implemented at the District and State level.

(c) Consistent with such programs, broader authority and discretion should be extended to District offices and State Directors. This should be coupled with Washington's encouragement to County and State officials to adopt a positive, constructive posture designed to expedite processing and produce more badly needed rural housing sooner than heretofore.

(d) FmHA and HUD should coordinate their programs to encourage the production of rural housing in New Mexico. A 34 unit family Section 8 project in Truth or Consequences, New Mexico, could be under construction by summer if this would occur.

In summary, we in New Mexico need housing and must be able to take full advantage of available federal programs that will achieve that end.

I am a firm believer that the Federal and State Governments have a moral obligation to the tax payers and citizens to provide the reasonable means of obtaining safe, sanitary and decent housing.

Leadership in the different levels of government seem to quickly forget the problems of their constituency. The latest typical example is the proposed antitrust settlement of A.T.&T. and I.B.M. Our bills will double within five years according to the announcements of local companies involved.

Without some proven FmHA programs, the American farmer would not have been able to feed this Nation and a large percent of the world at such an economical price.

Thank you very much.

HOME EDUCATION LIVELIHOOD PROGRAM, Inc.
3423 Central Ave., N.E. ● Albuquerque, New Mexico 87106 ● (505) 265-3717

HELP

January 15, 1982

The Honorable Harrison "Jack" Schmitt
U.S. Senator
United States Senate
248 Russell Senate Office Building
Washington, D.C. 20510

Dear Senator Schmitt:

Unfortunately, I was unable to attend your public hearing on rural housing needs in Las Cruces and Santa Fe on the 14th and 15th of January, but I would like to submit the enclosed information for your review and consideration.

Much of this information has been garnered from various sources throughout the state and presents a rather bleak picuture of housing in the state.

Our concern at this time is that with proposed budget cuts in housing, New Mexico's housing picture is going to become worse and the state is without sufficient resources to take up the void left by the cuts.

Should you wish clarification or more information, please let me know.

Respectfully,

Ernest E. Ortega

Ernest E. (Gene) Ortega
Executive Director

EEO:jkd

Enclosure

An Affiliate of the New Mexico Inter-Church Agency

HOME EDUCATION LIVELIHOOD PROGRAM'S INFORMATION RELATED TO HOUSING IN RURAL NEW MEXICO

I. Demonstration Need for Housing Rehabilitation

Good housing within the State of New Mexico is both scarce and priced out of the range of New Mexico's families falling in the low and moderate income levels. The New Mexico State Housing Authority has estimated the average cost of new housing unit to be $43,000. Also estimated are approximately 96,000 units in need of rehabilitation at an average cost of $4,000 per unit. Of the units needing rehabilitation, over 23,000 have been attributed to low-income families. Only ten percent (10%) of the low-income households needing rehabilitation are located within a city or outer boundary of a city or urban area as defined by Rural America.* Thus, a full ninety percent (90%) of low-income households needing repair are located in the rural areas of New Mexico.

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*Rural, as defined by Rural America, is all territory of a state that is not within the outer boundary of any city having a population of fifty thousand or more and its immediately adjacent urban area with a population density of more than one hundred persons per square mile as determined by the Secretary of Agriculture according to the latest decennial census.

The need for housing rehabilitation in New Mexico was recently illustrated in a study developed by the New Mexico State Housing Authority.[1] The need for housing rehabilitation on a county by county basis is graphically represented by four (4) counties in New Mexico each having over thirty-seven percent (37%) of their population as low-income.* One of the counties, Mora, has a low-income rate approaching sixty percent (59.9%). Together, the four counties have over 4,500 low-income units in need of rehabilitation.

II. Perspective on Housing Needs

Although the reasons are complex, the current housing situation itself is not hard to identify. Quality housing is both scarce and priced out of range of the low and moderate income people who are most in need. In a sense, the problem is self-perpetuating. The availability of good housing is declining because the aging, existing stock is not being replaced, therefore lower cost housing does not filter into the market. Contractors

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[1] "Low Income Housing & Community Development Needs in New Mexico: Projected Three Year Program Resource Demand," New Mexico State Housing Authority, 1980. p.4.

*Low income in the study was defined according to the poverty rate derived from HUD's Dallas Regional Office report, Community Planning and Development Selection Criteria for Discretionary Grants for New Mexico Counties.

ILLUSTRATION I

NEW MEXICO HOUSING REHABILITATION NEED BY COUNTY 1981*

	Percentage of Poverty Rate	Low Income Units Needing Rehabilitation 1980	Total # of Substandard Units Needing Rehabilitat 1980
Region I			
San Juan	20.7	1,961	9,475
McKinley	31.6	3,480	11,012
Region II			
Colfax	22.4	305	1,361
Los Alamos	2.1	7	318
Mora	59.9	845	1,411
Rio Arriba	32.6	1,821	5,585
San Miguel	38.5	1,569	4,076
Santa Fe	17.7	780	4,405
Taos	32.9	1,385	4,211
Region III			
Bernalillo	13.7	2,151	15,704
Sandoval	37.5	1,848	4,928
Torrance	32.6	314	962
Valencia	18.5	1,184	6,402
Region IV			
Curry	18.	258	1,432
De BAca	27.8	66	237
Guadalupe	42.5	278	640
Harding	32.3	76	235
Quay	22.9	135	679
Roosevelt	23.9	156	652
Union	30.9	111	359
Region V			
Catron	15.8	67	427
Grant	.13	243	1,871
Hidalgo	21.5	111	518
Luna	20	242	1,208

ILLUSTRATION I continued--

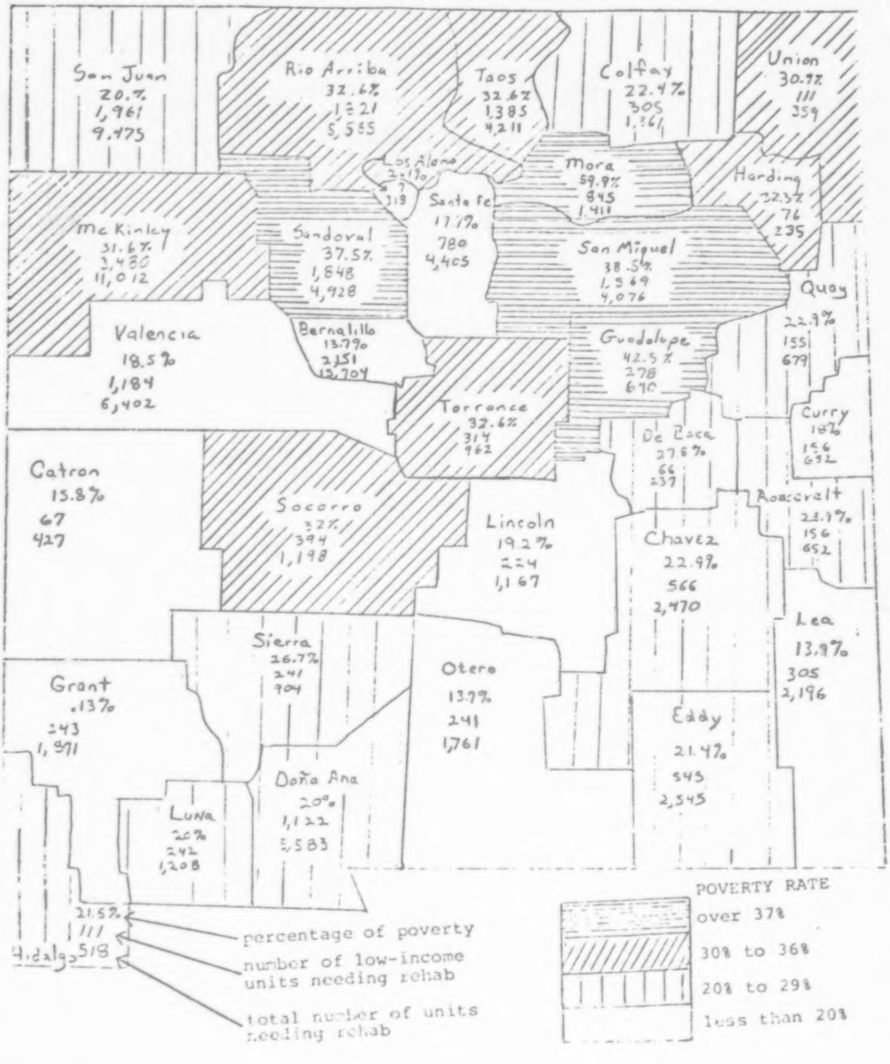
Region VI			
Chavez	22.9	566	2,470
Eddy	21.4	545	2,545
Lea	13.9	305	2,196
Lincoln	19.2	224	1,167
Otero	13.7	241	1,761
Region VII			
Dona Ana	20.1	1,122	5,583
Sierra	26.7	241	904
Socorro	32	394	1,198
		23,051	95,932

(NOTE: State average per capita income $5,846.)

*Compiled from information reported by New Mexico Housing Authority in report entitled Low-Income Housing and Community Development Needs.

ILLUSTRATION I

NEW MEXICO HOUSING REHABILITATION NEED BY COUNTY



cannot afford to build more housing because of higher interest rates of construction financing. With decreasing supply, costs increase, currently at a faster rate than income. Coupled with skyrocketing mortgage interest rates, this situation puts housing out of reach of most people. With fewer people buying, more builders go out of business, resulting in less construction, more demand, higher costs, and a depressed market. This encourages financial institutions to invest their money elsewhere. Thus, home ownership opportunities spiral downward.

To achieve the obvious goal of improving the quantity and quality of available housing, two broad objectives are apparent. First, it is necessary to stimulate the private sector so that more housing may be built and the existing stock may be maintained. Second, it is necessary to improve the affordability of mortgage financing and home repair loans. There are many possible strategies to achieve the preceding objectives. However, any effective strategy must pursue both objectives simultaneously, to some degree, because they function at different levels.

Tax breaks, for instance, amounting to billions of dollars annually, are given to homeowners and rental property owners over the life of the purchase. Under this system higher income people benefit more than lower income people, thus in a sense, government subsidizes the rich. The tax system, however, is intended to stimulate the construction and purchase of housing, which in theory has a ripple effect in the overall economy, for instance, in the form of peripheral retail purhcases and additional non-residential construction. Tax subsidies are also related to the filter effect or the assumption that when an owner moves or makes rental units available housing supply increases, demand decreases, and costs remain low. Ultimately this is supposed to benefit the poorer segments of society. Although tax benefits may aid in homeownership and provide housing options for many Americans, it is safe to say that the system does not function perfectly, even under the best of financial conditions. Every individual is not assured better housing, especially when the economy is in decline.

Other government programs exist to fill the gap left by 'the free-market-system'. Due to the advent of the Housing Acts of 1949 and 1974 with their subsequent amendments, and the creation of the Department of Housing and Urban Development (HUD) in 1965, various housing subsidy programs have become available to needy citizens. Under authority of the Housing Acts, Farmers Home Administration (FmHA) was authorized to provide various categories of assistance, specifically to rural residents. FmHA has provided 1,590,449 housing grants or loans, as of September 1980, amounting to $31,166,oo3m438. FmHA programs include the following: insured, low interest loans to low and moderate income families for home acquisition or repair; rental assistance to low and moderate income families; loan guarantees to above moderate income rural residents; financial and technical assistance for mutual self-help housing projects; congregate housing loans to senior citizens and handicapped persons; and loans for several other purposes related to development of improved rural housing. In sum, these are direct cash subsidies intended to assist a range of income groups extending from the very poor to those higher income, lower risk individuals who require some government incentive to move in the housing market.

HUD also provides a diverse package of assistance programs, including grants, guarantees, loans, mortgage and loan insurance, homeownership and rental subsidies, and technical assistance. For the most part, these are restricted to the Nations's urban areas. Various HUD incentives are given to builders to stimulate the construction of housing and thus promote the filtering process. When this fails, the government may build and operate its own units, for instance, to provide housing specifically for the very poor. Several HUD programs serve this function. Each of the government housing subsidy programs described are intended to benefit different levels of society in various ways and therefore should meet the full range of housing needs.

It is difficult to evaluate the real effectiveness of these government programs but within the complex of assistance programs, gaps must exist. Broad subsidy programs administered from Dallas, Washington, D.C., or even Santa Fe may overlook certain segments of the population or may only partially fulfill the needs of recipients. The programs may be inadequately funded, as in Albuquerque where 1,000 people wait on a list for up to 1 and ½ years for HUD housing assistance. The New Mexico Housing Authority at the state level, has $200,000.00 of CSA money to administer approximately seventy housing rehabilitation allotments in an area which has over sixty five hundred low-income units needing rehabilitation. Obviously each specific need for house repair or replacement cannot be met or satisfied by any single broad program.

III. New Mexico's Housing Situation

The current economic conditions and their marked effect on housing are particularly detrimental to the citizens of New Mexico. In 1970 the U.S. Census reported a full 44% of the state's population to be living in substandard housing. In 1980, the New Mexico State Housing Authority estimated that 82,625 families occupied substandard housing, defined as those units which lacked plumbing or were overcrowded. This amounts to between 280,000 and 370,000 people, a figure which may rise to almost 450,000 by 1990.

Invariably, many of the residents living under these conditions are poor (see illustration 1). Today it is almost impossible for a low-income family to replace their current home. For example, at an average cost of $43,000, with a 17% interest mortgage and 20% down, monthly payments amount to $492.70. Add to this taxes and insurance and maintenance at about $190.00 a month, and the total monthly cost is $722.00. Even to a family living in Albuquerque, with an average income of $16,500 per year or $1,375.00 per month, this accounts for over one half of the family's income, just for housing. The U.S. Department of Housing and Urban Development sets a limit of 25% of total income as a reasonable amount for a family to pay for housing. Furthermore, the majority of New Mexico residents do not live in a city, within convenient reach of high paying jobs, but rather live in the rural areas where home financing, as well as jobs are more difficult to obtain.

The character, resources, and problems of New Mexico's rural counties vary considerably throughout the state. San Juan and McKinley counties in the northwest corner of the state are heavily impacted by energy development and may expect an influx of up to 30,000 people by 1986. This will create a definite need for additional housing. Already the area contains substantial amounts of substandard housing, notably on the Navajo Reservation.

North central New Mexico, consisting of Mora, Los Alamos, Colfax, San Miguel, Santa Fe, Rio Arriba, and Taos counties contain some of the state's worst poverty and housing. Because this area is extremely beautiful it has experienced an in-migration of out-of-staters, resulting in land price escalation and difficulties for low-income housing development.

The Middle Rio Grande Valley, containing Bernaillo, Sandoval, Torrence, Valencia and Cibola counties has experienced an extremely rapid growth rate, associated with extensive economic development. The demand for housing has paralleled this growth.

In the southwest corner of the state, Catron, Grant, Hidalgo, and Luna counties contain substantial amounts of substandard housing. Although this region is not considered a boom town area, it is experiencing moderately rapid growth with notable migration of elderly people who have special housing needs.

Chavez, Eddy, Lea, Lincoln, and Otero counties, in the southeast corner of the state, were traditionally agricultural areas. Gas and oil booms and the proposed WIPP may bring an additional ten thousand to eleven thousand people to the area. Displacement of low-income people is a potential threat from the expected increase in housing demand.

The Lower Rio Grande Valley in south central New Mexico contains Dona Ana, Sierra, and Socorro counties. Seasonal farmworkers who migrate to this area to work the extremely fertile agricultural lands live under some of the state's worst housing conditions. Population and housing demand have grown considerably and are expected to continue to grow with the attractions of New Mexico State University, the White Sands Missle Range, and the proposed opening of an international Port of Entry at Anapra, New Mexico. Many existing housing units are substandard.

From the preceding discussion, the following are apparent: 1) interest rates and inflation have reduced the accessibility of housing; 2) current subsidy programs leave many gaps in the assistance need structure; and 3) New Mexico's needs are both extremely pressing and uniquely its own. Additionally, with the current cuts in Federal assistance programs of all kinds, it may be necessary for new approaches to solving the housing problem to be formulated at the state and local levels. What is evident is that the proposed budget cuts in HUD and FmHA housing areas will only serve to increase the substandard and housing shortages in rural New Mexico.

MORTGAGE LOANS

Sutter Trust Company
a division of Seafirst Corporation

300 West Osborn Road Suite 120 P. O. Box 16150 Phoenix, Arizona 85011 Telephone 264–3581

December 24, 1981

Senate Housing Subcommittee
5226 Dirksen Senate Office Building
Washington, D. C. 20510

Attention: Claire Gilmer

Re: Background Data on Navajo Housing

The purpose of this letter is to provide the Senate Housing Subcommittee background data on our experiences in servicing Home Loans on the Navajo Indian Reservation.

In early 1974 and again in 1978, GNMA (Government National Mortgage Assn.) requested Sutter Trust to take over the servicing on groups of their loans, totaling over 90 loans. The initial group of loans totaled 40 loans in Rio Puerco Acres in Fort Defiance, Arizona, on the Navajo Reservation. Out of these loans, many were in default at the time we received them. The second group of loans totaled 51 loans in the St. Michael's Subdivision in Window Rock, Arizona which is also on the Navajo Reservation.

With the help of the local HUD office, we contacted each borrower and either obtained reinstatement or established a repayment plan whereby each loan would be brought current as soon as possible. We did have to do a foreclosure on a few of these loans after determining that the borrowers did not plan to pay or circumstances made it impossible for them to pay.

The initial group of loans were made via a Deed of Trust and, therefore, the foreclosures were done via a Trustee's Sale(Non-Judicial). No legal problems arose preventing us from taking title on behalf of GNMA and deeding the property to the Secretary of Housing and Urban Development. We have not had to use a forcible detainer action to evict a foreclosed borrower on the Reservation, but it is our belief that the Navajo Tribal Court will approve such without too much resistance.

The second group of loans acquired in 1978 were Mortgages originating in 1962 rather than the 1972 Deed of Trust Loans. Because one loan was seriously delinquent, and at the time, seemed insoluble, we started a Judicial Foreclosure. Even though we experienced a few delays, the Navajo Tribal Court did seem to be cooperative and, again, showed no reluctance to allow foreclosure of this property. This loan was reinstated prior to sale and is now current.

Sutter Trust has been involved both in refinances and several new VA loans on the reservation. The credit standards for approving these loans are the same as non-reservation loans. We have made these loans based on FHA/VA underwriting standards. Our underwriting procedures are identical to our servicing procedures, in that there is no discrimination. We are continuing to make residential loans on the reservation.

We sincerely hope that the above information will be instrumental in your hearings and should any further information or help be necessary, please advise.

E. C. Nanneman
Loan Administrator

ECN/en

Tierra del Sol Housing Corporation

240 S. Water St. Las Cruces, New Mexico 88001 (505) 523-4596

January 14, 1982

Honorable U. S. Senator Harrison Schmitt
Senate Subcommittee on Rural Housing
and Development
Room 5226, Dirksen Senate Office Building
Washington, D. C. 20510

Dear Senator Schmitt:

We sincerely appreciate the opportunity to provide input to the Committee on Banking, Housing, and Urban Affairs.

Enclosed is a detailed written position paper representing the views of the Tierra del Sol Housing Corporation Board of Directors and administration concerning the rural programs administered by Farmers Home Administration.

We are very concerned at this time about Farmers Home Administration because for one year, we have been trying to get a 48-unit self help housing project implemented in Anthony, New Mexico. We have the lots ready, the funding has been obligated, the first group of families qualified, but we need to get the sewer facilities upgraded. Several delays have been caused by interpretation of the regulations. It is imperative that the project get underway soon, as the interest on the lots is a detriment to keeping the homes affordable.

I would be glad to provide any other information you may need. I would also like to meet with you privately some time in the future.

Additionally, I want to express my appreciation to your staff in Las Cruces who are always so courteous and responsive. I also want to thank your staff in the Washington office, Kerry Weems and Jim Sawyerwine for their assistance.

Sincerely,

Rose M Garcia

Rose M. Garcia
Executive Director

Enclosure

TIERRA DEL SOL HOUSING CORPORATION

Position Statement

Re: Status of New Mexico Rural Housing Programs Funded by Farmers Home Administration

I. INTRODUCTION

I am Rose Garcia, Executive Director, responsible for administration of Tierra del Sol Housing Corporation. I have been in this position since December 1980.

Tierra del Sol Housing Corporation is in the unique position of being the oldest and currently active private non-profit community based organization developing rural housing funded by Farmers Home Administration in New Mexico.

II. FUNDING STRUCTURE

During the ten years Tierra del Sol has been in operation, the main source of project funds has been Farmers Home Administration. A portion of funding for land development came from the Housing Assistance Council. The administrative funds to enable Tierra del Sol to hire staff to research funding sources and prepare proposals for project funds as well as coordinate the implementation of projects are derived from agencies such as Farmers Home Administration, Rural America, National Council of la Raza, Home Education Livelihood Program, and Department of Labor. A section in this paper is devoted to these other agencies which I think have been overlooked in having a significant impact on the federally funded housing budget.

Two years ago, the budget for Tierra del Sol to administer programs was over $420,000. The total spent on administration this year will be $120,000.

III. TYPE OF PROGRAMS AND ACCOMPLISHMENTS

Tierra del Sol Housing Corporation has been active in implementing programs such as the following:

A. SELF-HELP HOUSING - FARMERS HOME ADMINISTRATION SECTION 523, TECHNICAL ASSISTANCE WITH SECTION 502, SUBSIDIZED MORTGAGE.

Tierra Del Sol has assisted 189 families in San Miguel, Anthony, Dona Ana and Mesquite, New Mexico, to build their houses through the Self-Help method. Self-Help housing is a program whereby low-income families under $11,200 annual adjusted income are supervised by Tierra Del Sol construction staff to build their own homes. There is no down payment required; the down payment is substituted for the families' labor termed "sweat equity" which requires a minimum of 30 hours per week @ 40 weeks of building time for the maximum of 1200 hours of labor.

The advantages to the family, through the Self-Help method, is that the family saves up to $10,000 or more. The most recently completed homes were mortgaged in March 1981 at an average of $29,000. This was for a 1,098 square foot, 3 bedroom, 1 3/4 bath, single family home, which includes the developed lot.

The other advantage which is not so tangible, is that through this experience there is an improvement of the families' quality of life. Their pride is developed through home ownership. This makes for a more useful and productive citizen who contributes to the system as a taxpayer. It is definitely the most positive rural housing program Farmers Home Administration has available.

The prime advantage to the government is that Self-Help is not a give-away, subsidized housing program; the $10,000-plus savings per unit by the family's labor would go into funding one-third the cost of another similar unit, whereas, the contractor-built Farmers Home Administration funded unit would cost $10,000 more than Self-Help and the family has no personal committment in the home.

This program has also helped to build a link between the community and New Mexico State University. Tierra Del Sol has a working agreement with the New Mexico State University Occupational Branch in which the building trades classes use our building sites for on-the-job training and practical experience.

B. RURAL RENTAL PROJECTS - FARMERS HOME ADMINISTRATION SECTION 515, SUBSIDIZED RURAL RENTAL.

Tierra Del Sol has completely developed in Hatch and Truth or Consequences, New Mexico, 68 units of rural rental, with 24 units in Anthony, New Mexico at loan closing and near construction and 22 units obligated in funds for Taos, New Mexico. The rural rental projects serve elderly, farmworkers and other low-income unskilled New Mexico residents in isolated areas.

C. HOME REHABILITATION - FARMERS HOME ADMINISTRATION SECTION 504 HOME REHABILITATION AND COMMUNITY DEVELOPMENT BLOCK GRANT HOME REHABILITATION.

Tierra Del Sol has completed 200 home rehabilitations in Dona Ana County utilizing youth as the prime labor in an on-thejob training situation for the building trades.

D. LAND DEVELOPMENT - FARMERS HOME ADMINISTRATION SECTION 523, SITE DEVELOPMENT AND HOUSING ASSISTANCE COUNCIL.

Tierra Del Sol has acquired and developed land with complete utilities for over 309 units of single and multi-family low-income housing for Dona Ana County and Anthony, Texas. Several of these lots have been sold to private contractors for Farmers Home Administration 502-contractor built homes, as developed lot prices outside our subdivision are much more.

E. SOLAR ENERGY RETROFIT

Tierra Del Sol has retrofitted 20 units of low-income and elderly housing with energy saving water heaters and trombe walls.

Tierra Del Sol's accomplishments can be interpreted in a number of ways. The impact to: 1) community housing needs, 2) the economics statisticians project a 7:1 ratio for housing development impact to the tax base--that means for every dollar of housing building cost, it multiplies itself seven times returned to the community as generated revenues,

3) The development of the quality of life of the families through homeownership, 4) The improvement of the quality of life by improving the housing conditions of people.

IV. HISTORICAL PROBLEMS

Senator Schmitt and his staff are probably the most knowledgeable to the problems that Tierra Del Sol encountered in 1980. Tierra Del Sol had experienced 8 active years in housing when the corporation became the target of opposition and an inquiry was requested through the Senator's office.

Congressional inquiries from concerned community individuals prompted a series of audits which concluded poor financial administration and exceptions to program compliance. Consequently, the Executive Director resigned in August 1980 and the Board of Directors was left to contend with the adverse publicity and credibility of the Corporation. The result was a clouding of all the positive accomplishments in providing needy families with housing for eight years.

On December 1980, I was hired as Executive Director. The months that followed were devoted to responding to the concerns, mending public opinion, completing audit responses, revising and improving financial administration, streamlining the staffing and program administration, and correcting past errors and deficiencies. It has been very difficult to obtain cooperation and assistance from some of the technical assistance housing organizations funded explicitly for the purpose of assisting field entities such as Tierra Del Sol. Instead, Tierra Del Sol has become the target of political reprisal and we must operate under unreasonable conditions and certain standards super-imposed on the normal regulations.

This reprisal has resulted in the severe reduction of Tierra Del Sol projects. The funding reductions curtailed the completing of a project located in Taos, for which we had received obligated funding. Nevertheless, Tierra Del Sol continues to serve as a vehicle committed to one goal--to procure and promote resources to assist the low and moderate income families to obtain decent, safe, sanitary and affordable homes.

V. PROBLEMS WITH FARMERS HOME ADMINISTRATION

A. Specific problems in program areas:

1. Water and Sewer Facilities

It is a disgrace that in the United States, in 1982, people have to boil their drinking water before consumption. Senator, you are very knowledgeable about the deplorable conditions of potable water in the Sunland Park and Anapra communities, and we are very aware that you were instrumental in assisting the communities to obtain funds to upgrade their drinking water. However, that is not the only area of New Mexico with water and sewer problems. Most problem areas have not been taken care of. The fact that Farmers Home Administration had water and sewer funds allocation for the past three years and returned the money because it was not used is appalling. The following are the Farmers Home Administration allocations received and funds spent in New Mexico:

Water and Sewer Funding Allocations/Expenditures

Fiscal Year	Amount Allocated For NM Projects	Amount Spent In NM	Amount Not Used
LOAN FUNDS:			
1979	$5,460,000	$1,399,075	$4,060,925
1980	4,025,000	1,692,000	2,333,000
1981	3,395,000	*9,300,000	(5,905,000)
GRANT FUNDS:			
1979	$1,635,000	$ 978,000	657,000
1980	1,735,000	1,400,000	335,000
1981	1,160,000	*1,841,000	(681,000)

* The asterisk represents excess funds spent in New Mexico during 1981 which was applied to only one project in Raton, New Mexico which was encouraged strongly by the Congressional Delegation. It is an example that without congressional or outside prompting, Farmers Home Administration staff historically do not respond to improve facilities for the State.

V.

2. Housing Counseling

Farmers Home Administration program, Section 525, Technical Supervisory Assistance/Housing Counseling was an attempt to reduce the delinquency rate of Farmers Home Administration borrowers which is extremely high in New Mexico.

Because Farmers Home Administration has reflected a high delinquency rate they developed and funded a demonstration program to subcontract nonprofit groups such as Tierra Del Sol to provide counseling and assistance to delinquent borrowers. However, during the past year, we have discovered that Farmers Home Administration regulations are somewhat contradictory making this program almost impossible. This has contributed to problems of a programmatic nature between Farmers Home Administration and Tierra Del Sol administration.

The borrowers were not responding to the County office's delinquent notices and offers of credit counseling. Tierra Del Sol, in turn, could not work with the borrowers because we had no information as to who the delinquent borrowers were. At this point, the Farmers Home Administration District Office refused to allow the County Office to release the names of delinquent families and Tierra Del Sol was forced to request the names of the delinquent borrowers under the Freedom of Information Act. It took several months for the District Office to act, and the information was provided for only three months-(one quarter)- of our contract. Without the names of delinquent borrowers, Tierra Del Sol was not able to comply with the work program and the 525 contract was terminated by Farmers Home Administration. There is a documented history of attempts by the Farmers Home Administration County staff to intimidate Tierra Del Sol staff. It is our belief that this occurred because the Farmers Home Administration County staff viewed an outside contractor (Tierra Del Sol) as a threat to their job security due to the "outside" participation in loan servicing traditionally taken care of through Farmers Home Administration only. The results of the documented reports to the county and state Farmers Home

Administration offices of the attitudes and actions of the county staff produced no positive results. The action that was taken by Farmers Home Administration was to terminate the Tierra Del Sol contract and discontinue the program. The delinquency rate in New Mexico was evident prior to the inception and implementation of the short-lived 525 program. It is obvious that the program could have deterred delinquencies, but was bogged down with regulation inconsistencies and staff attitude that can be eliminated to make the program work.

3. Home Rehabilitation, Section 504

An area which we will strongly defend is the home rehabilitatation for elderly and low-income eligible families. Tierra Del Sol has done some rehabilitation with Farmers Home Administration Section 504 funds, but it became difficult because Farmers Home Administration was lacking in their assistance in obtaining rehabilitation funds and the majority of the work was done with CDBG money.

Southern New Mexico receives very little rehabilitation funds, and we believe it is due to the attitude of the Farmers Home Administration staff to not promote this program. On an average, Tierra Del Sol gets three requests per week from rural low-income and elderly families for rehabilitation. With current high new construction costs and especially the elderly not wanting to relocate, the need for rehabilitation is more than the need for new construction. The remote rural areas desperately need rehabilitation to bring substandard homes to standards.

In light of this, the following data on New Mexico Farmers Home Administration funds allocation and actual spent dollars is appalling:

Farmers Home Administration Section 504 Home Rehabilitation

Fiscal Year	Allocation of Loan Funds	Amount Spent	Funds Not Used
One percent loan - to low-income eligible			
1979	$410,000	$198,000	$212,000
1980	330,000	222,000	108,000
1981	275,000	130,000	145,000

4. Rural Rental

The need for subsidized housing in particular rural elderly and agricultural workers in New Mexico is high. However, during 1981, Farmers Home Administration was allocated $7,642,000 and only used $4,215,000. The total $3,427,000 unspent was apparently returned to the national pool. Recent figures indicate New Mexico ranks 31st in per capita income. The subsidized rural rental is a necessity, but the process for delivering the housing is jammed with regulations on top of regulations and the lack of sensitivity and the lack of willingness to assist that exists in the Farmers Home Administration offices makes it doubly difficult to deliver the housing.

5. Single Family Housing

Currently, the Farmers Home Administration Section 502 single family funds are the only means of rural credit financing for low-income families in the United States. The program is offered as subsidized or unsubsidized financing, depending on eligibility criteria. Either method is an affordable way to finance low to moderate income families. Repeatedly, the Farmers Home Administration allocation and usage during the last three years points to serious problems in the system. The following information reflects that families lost the opportunity to have homes and the community tax base was seriously affected.

Section 502, Single Family Financing

Fiscal Year	Subsidized		Unsubsidized	
	Allocation	Spent	Allocation	Spent
1979	$14,000,000	$14,400,000	$7,000,000	$7,100,000
1980	17,000,000	18,038,000	7,000,000	4,000,000*
1981	18,200,000	17,901,000*	6,600,000*	2,424,000*

*The unsubsidized financing unused would have made possible several homes at the maximum payment of approximately $345.00 per month.

This loss of units impacts on the tax base seven times, affecting private contractors who are distressed due to the poor construction market.

B. Specific Problems with the Farmers Home Administration System.

1. It is our consensus that the Farmers Home Administration structure and system can be streamlined to eliminate the layered levels of

"authority." However, the structure is not the prime culprit, but rather accountability of the staff assigned to responsible line positions of decision making. For example, the District Director's office has certain duties and responsibilities, but the staff passes on its accountability to the state or someone else, and we, as the outside contractor do not know who to turn to for a decision.

2. There is a void in supervision of the district and county offices by the state and national offices, as certain postulates are directed by the state and national office, but it is not verified to determine if the work is performed properly or consistently or if it is performed at all. There is no responsibility accounting for implementation of regulations.

3. It appears that some district and county office staff draw a paycheck, but if they are unwilling to process a particular project for whatever reason, be it biases or philosophical differences with the national directives, they can and will collude to undermine the effectiveness or feasibility of programs that the grantees are attempting to deliver to the people.

4. The negative attitude of certain Farmers Home Administration staff is perpetuated by the personnel regulations of the civil service system. For that reason, the problem will be difficult to change. Even if the State Director desired to reprimand staff or to change the system to impress accountability, he cannot enforce changes fast enough as his position is a political appointment for only four years. The Director must yield to the civil service system which makes it almost impossible to dismiss staff. We sympathize with the State Director, as he is trying to do his job with his "hands tied".

5. Tierra del Sol staff experiences in dealing with negative Farmers Home Administration county office personnel has identified the Assistant County Supervisor in District 3. She is a FmHA staff who makes it a practice to attempt intimidation of not only Tierra del Sol counseling staff but

the borrowers as well. We have received numerous complaints from borrowers, contractors, etc., about this individual's abrasive, rude and prejudiced attitude and actions. This person has made derrogatory references to the existing borrowers living in our Mercure Subdivision and has tried to discourage potential borrowers for Self-Help. A number of complaints have been filed without positive results. We are aware that both congressional offices have also received regular complaints about this individual.

6. In the thirteen months I have been with Tierra Del Sol, I have been able to meet only three times with the District Director. He delegates major responsibilities and decision-making to other staff. The District is large in area, but small in numbers of projects, yet he avoids dealing with Tierra Del Sol who is working with the largest number of housing units.

   The Assistant District Director appears to run the District office, yet he differs philosophically with the Farmers Home Administration programs intent in regard to Self-Help Housing and resident aliens who qualify for federally subsidized loans. His philosophy is demonstrated by his actions and known to the congressional offices. Time and effort are often spent in circumventing particular projects due to his indifferences to the Farmers Home Administration national objectives.

   It was brought to my attention that in the last month the newly proposed Self-Help project in Deming decided to abandon the project due to the hasstle and bureaucratic shuffle they got from this District office. That means 14 less homes for Deming families. In Truth or Consequences a small private contractor with a large personal investment in land preparation was circumvented from building a number of units. I believe 18 units were involved and are now lost in Truth or Consequences.

The horror stories from both private contractors, individual potential homeowners and private non-profit community groups continue, but there is not enough time or energy to relay them. We must now look forward to the future in hopes that a new system will enable the delivery of housing.

VI. NEED

A. Non federal credit availability in rural areas

1. Senator, your letter asked us to address the issue and question of availability of non-federal credit in rural areas. I will respond by addressing my comments as follows:

a. can the federal government meet the needs of low income rural mortgage seekers most effectively by maintaining the Farmers Home Administration direct lending service or by providing incentives to the private sector lenders to make credit available to the rural resident in isolated areas?

b. the availability of non-federal credit is scarce in rural areas. Some of the reasons are that banks and savings and loans have limited mortgage capital and are less inclined to invest it with the moderate income borrower, let alone the low income borrower seeking to build or purchase a home. Farmers Home Administration is a lender of last resort. It provides mortgages to people "without ability to obtain credit elsewhere" so banks do not anticipate a large profit margin from these clientele.

c. in answer to your question whether credit is available, no, credit is not available in the rural areas except with FmHA programs for moderate to low income people.

VII. RECOMMENDATIONS

In spite of the problems with the Farmers Home Administration system, the Tierra del Sol Board of Directors and I believe that revisions to the process can improve the delivery of homes to needy families. Our recommendations are as follows:

A. that the State Director have the authority to improve the responsibility accounting of each FmHA staff by perhaps streamlining the process and eliminating so many levels of review;

B. the FmHA staff should be given an incentive to promote housing in order to fill the needs and apply the funds allocated to the State. Priority areas should be designated by good planning each fiscal year to insure implementation of housing occurs:

C. FmHA should receive regular training on interpretation of regulations and give training to contractors and non profit groups on procedures, etc. The specialization of proposals has become so confusing caused many times by the fact that it depends on which FmHA staff is doing the reviews. A consistency should be established in packaging so that funds can be obtained faster and less costly, as with each delay for resubmittals, it costs a contractor time and money for holding land, etc.;

D. the requirement to hire professionals for designing and supervising projects such as architects and engineers should be revised some way to perhaps establishing an approved pool of professionals who have been FmHA certified as having professional capability to fulfill FmHA project requirements. The current system of having a private professional design and prepare projects and also have the FmHA engineers and architect again review the professionals documentation is a duplication, and on many occasions detrimental to the project development due to philosophical or theoretical differences of opinion which are not material;

E. on the subject of staffing, it is our impression that the FmHA staff in general do lack the knowledge in assessing the housing and community facilities programs. Many FmHA staff have agricultural-economic backgrounds and education and are completely out of their field of discipline when assessing housing programs. Perhaps new staff could be selected from the field of business, engineering or construction;

F. it is our opinion perhaps FmHA has diversed their services too much out of its original intent. FmHA should restrict its activities to rural development and assisting farmers' needs. The rural development should be down to the basics such as decent drinking water, sanitary sewers, affordable housing, and helping the farmer.

G. on the subject of domestic water, FmHA should provide better mortgaging procedures and loan servicing to small community mutual domestic associations. On occasions, associations executed mortgages for more money than the project needed. The obligation was not changed to the actual amount used, instead, the excess was applied back against the loan after several months. We recommend that on community facilities that FmHA give committment of an obligation based on the engineering plans, but that the mortgage be executed after the project is completed;

H. we also recommend that domestic water system funded by FmHA be given a periodic computer or certified correct itemized account information, as historically associations get only handwritten payment schedules, as it seems the computer is so inaccessible.

I. when self help technical assistance grants are approved and obligated funds, the FmHA needs to set aside the necessary S. 502 mortgage funds to accompany the package.

J. one of FmHA's favorable feature is known as its outreach capability, and that this is one of its most important assets for rural people. This direct lending and outreach capability needs to be insured in New Mexico, as it is vital to the sustenance of a rural housing delivery system and to the third of the nation's households who live in rural areas. This feature should be impressed upon the staff to uphold.

K. there is currently a controversy over consistency in applying discretion in the interpretation of FmHA regulations. Our proposal for self help housing has been heavily scrutinized for the portion of work we propose to subcontract to professionals such electrical, plumbing, drywall, etc., as some of these functions require licensed workers. However, in some states such as Arizona and Oklahoma, self help projects subcontract up to 75-80 percent of the unit which is totally inconsistent and unfair to other grantees who try to adhere to the families putting all the effort they can to reduce cost. We suggest that the national office hold state directors accountable for these type of inconsistencies. There is too much arbitrary discretion being applied to regulations.

L. another suggestion is that FmHA should be monitored by an outside and objective evaluation mechanism. The program is good, but the application would perhaps be more efficient if this accountability were emphasized and monitored to insure actual functions are carried out as intended in the regulations that Congress spends so much time developing for funding packages.

M. one area which has been overlooked and involves a large portion of the federal housing budget is the national private non profit corporations which are funded to provide technical assistance and studies to field agencies such as Tierra del Sol. There are millions of dollars spent by these entities and the services never reach the communities. The Housing Assistance Council must be noted as the exception, since we can attest to the tangible help received to sustain land development, etc. Without their help the land for our self help units would not be possible.

VIII. CONCLUSIONS

Please understand, we are not asking you to abolish the Farmers Home Administration, as that is not the solution. The fact remains that rural folks need housing and Farmers Home Administration is an established vehicle which has provided for some of the housing needs. The need is still great and Farmers Home Administration can provide the means to fulfill the need.

In conclusion, we recommend that the Committee support future funding of Farmers Home Administration to continue rural development on a more efficient basis.

VALLE del Sol Housing Corporation
P. O. Box 311
PORTALES, NEW MEXICO 88130

January 14, 1982

Senator Harrison Schmitt
5313 Dirksen Senate Office Building
Washington, D. C. 20510

Dear Senator:

Since the weather and hazardous driving conditions prevented our delegation from attending the session, January 14 in Las Cruces, our statement on the issues is forwarded for your consideration.

1. Is non-federal credit available in rural areas? Non-federal credit is available but not to the low-income laborers who possess no capital reserves. Housing is available in some rural areas but beyond the financial capabilities of the low-income and seasonal population. FmHA assistance in the form of low-rent and self-help housing is the only hope for these citizens.
2. Do FmHA regulations add unnecessarily to the cost of housing built under their programs? FmHA regulations adding unnecessarily to the cost of programs has not been an issue in this community. Our hope has been that the building contractors would employ local laborers, thereby contributing to the local economy, rather than bringing laborers from other counties or states.
3. What special obstacles inhibit the use of federal programs on Indian Lands? We cannot effectively address an issue of federal programs on Indian land; this community contains no Indian land.
4. How should federal assistance be provided to most effectively aid rural development? Federal assistance for rural development is a good program and is really the only source of aid to rural development in many areas. Some communities might find FmHA regulations and/or personnel tend to be obstacles to speedy development of housing but these are local, not federal, issues. One suggestion could be to move FmHA personnel from one region to another every four years; national retailers such as Woolworth find the practice appropriate for some reason.

It is our hope that this statement might be useful in whatever your efforts should be. However, the emphasis of our Board of Directors is that FmHA is the only source of funding available for rural housing development.

Respectfully yours,

Roy A. Morgan

Roy A. Morgan, Ph.D.
Secretary to the Board

P.O. Box 1779
Las Cruces, NM 88004

February 5, 1982

Senator Harrison Schmitt
ATTENTION: Kerry Weems
5313 Dirksen Building
U.S. Senate
Washington, D.C. 20510

Re: Rural Housing Hearings
Las Cruces, NM
1-14-82

Dear Sir:

I was in attendance at the hearing held in Las Cruces, NM, and would like to add another viewpoint to the questions asked.

I would like to state it was a pleasure to have you once again within the State's boundaries, and the opportunity to express the grass roots viewpoint of the paramount problem you are approaching in the area of rural housing. I was somewhat let down in the aspect that the people actually affected did not have a voice or representative present at the hearing.

I would agree that the Farmers Home Administration programs are not designed to meet the needs of western rural areas. Especially, when you consider the changes that have been added to the regulations in the past three years time.

New Mexico,"The Land of Manana", is slow to accept progress and change. We do not have the employment opportunities as other industrial states have. We are noted for having "cheap" labor. I believe the state average income is in the $14,000 range, according to 1980 census.

Since FmHA is a federal agency, we, as lenders, have to comply with all federal, state and local ordinances and laws. Senator, to make a single housing loan the local County Supervisor has to comply with approximately five to seven federal and state laws plus local codes. This requires some skill and time. Time is one of the major reasons FmHA is not currently meeting our housing goals in New Mexico.

Example - Congress changed the fiscal year that the government operates under from June 30 to September 30 to allow sufficient time to have budgets approved so as not to interrupt the giant wheels of government. This year, 1982, for example, our budget was unknown and we were operating under a continuing resolution, after a day's furlow, until February 2 when we were informed that the 502 loan allocation for New Mexico was $17,800,000 subsidized, $3,900,000 unsubsidized. In this same memo, Senator, they advise that all funds not used by close of business July 30, 1982, will be pooled. We have six months to spend a year's budget of funds.

At this point keep in mind not only is the supervisor working with the several federal and state laws, but a contract credit reporting bureau, employers in verifying income, then trying to tailor a loan within the repayment ability of the low to moderate income families that have no other source to turn to.

We cannot use "rules of thumb" used by other lenders. We have to have at least two meetings with the applicants, per regulations. Then, if we are unable to find a workable solution that fits within their repayment ability, by law we have to give them appeal rights. Because of all of these rules and regulations we have seasoned County Supervisors taking a week or so longer researching all possible alternatives to approve a loan, which slows the process and discredits the government as a viable credit source.

Let me digress on funding for a moment. Assume an average new loan value of $38,000. This would allow New Mexico to build 468 subsidized housing units and 102 nonsubsidized units. Should the state office allocate these funds equally to each county office, this translates to 19.5 units of subsidized housing plus 4 units of non-subsidized units, or a total of almost 6 units per county office per quarter.

As of January 29, this district alone had 114 housing applications on hand, and funds for only 92, assuming they all qualified, and we would not even be halfway into the year.

Your statement indicated that 24% of the total FmHA monies went to the urban counties in New Mexico. Hopefully you referred to only housing monies. This, on the positive side, could mean that 76% of all funds were used in the very rural areas. New Mexico only has eleven towns that exceed the definition of rural, and typically around urban growth is employment, where there is employment there is a demand for housing, and we are here to assist in meeting that demand, not creating it.

In 1979, RH funds at the request of Alex Mercure and others were targeted to the northern part of the state to the tune of 63% of all funds allocated to New Mexico. In August of that year all funds were not spent. In an attempt to spend these funds the State Director gave the funds to the southern part of the state along with two to three weeks to have them all spent before they were pooled and lost. Quite frankly, it takes longer than that to recertify all applications on hand in order to approve a loan. In my opinion, this so-called targeting of funds is discriminatory.

While these County Supervisors are working with the various 5 or 6 facets of housing, they are now charged with keeping abreast with some 19 or 20 farmer program loan variations, and this does not include their duties as credit advisors, counselors, debt collectors or loan servicing agents. This man is usually in charge of a county office consisting of at least one or two other employees, and he has to keep abreast of community affairs, other lenders' regulations and political who's who in his area.

The directives coming from Washington again are that FmHA must run a balanced loan program to enable the government to maintain less than a 1% write-off or less on all loans. Yet very little, if any, credit is given to the supervisor if he maintains a low delinquency rate in his office. On the other hand, he is criticized if the number of new loans drops off from time to time.

Under the current administration you are asking this individual to not only make more loans to more people with less than an adequate supply of lending funds, but to do this complicated task with fewer people, and as I understand it if he fails to do this task then his job can be abolished because he has not met a demand.

Senator, if you want FmHA to follow in the footsteps of HUD and to receive the open criticizm and media coverage this agency has had with its officials charged with kickbacks, non-productivity and creation of ghetto areas, then we are on the right track. On the other hand, this agency can be saved with some proper guidance and direction from Washington, and most important, some support of the efforts the field staff has made.

This is where "the rubber meets the road". This is one, if not the only, government agency with the delivery system to get the job done. Farmers Home employees are proud of the past batting average and would like to continue along these lines. However, with the multitude of regulations and different authorities we have been charged to administer, and the continual reduction of employment, this task will be impossible. We are human, not computers. Speaking of computers, the one in our finance office is a farce. Funds could be used to update this unit and place terminals in the county offices and save a great deal of time, maybe personnel, and money.

I would beg to differ with you on your delinquency figures. The last report for New Mexico RH delinquencies shows only one county office with 40% delinquent accounts. These, I believe, were due to circumstances beyond our control. Grants, as you know, boomed during the uranium mining operation, then the demand for this product disappeared along with the Three Mile Island incident.

As of November 14, 1981, this state's delinquency for RH loans was 25.9%, of which 10% was one payment or less. This probably means those people were more than 15 days late in having their payments into our finance office, or our computer was down and credit was not given when received.

New Mexico has not the population nor the current need for large rental housing projects. In the east where land is sparse and values extremely high, multi-family has become an acceptable alternative to owning your own home. In this time of inflation and rising construction prices this will catch on in New Mexico. At the current time, with the room available and land prices and taxes lower, the general trend is toward single family detached dwellings. Efforts are being made within our state to reduce the cost of multi-family dwellings, which will make them more cost effective than in the past and a greater range of people will be able to afford this type of living without the use of subsidies.

My information shows Utah has a total RH 502 caseload of 9442 and 12 units in foreclosure or other status, with a delinquency rate of 21%, while Nevada has 1316, 1, 17.9%, Colorado has 7968, 108, 22.4%, Arizona 10,415, 154, 26.5%. New Mexico does not have this number of properties in foreclosure status, even though we have a 25% delinquency. This appears to me to be a better balanced program. Again we are not given credit for servicing these loans and working with families to save their homes, but are being criticized for the number of loans not made.

In your statement you said "During FY 1980 and 1981 New Mexico returned nine million dollars of its allocation. As a result 1948 New Mexican families, for whom funding was available, did not receive assistance." Using these figures that allows $4,620 per loan. I doubt that this would fund a dwelling. It is very difficult to process any loan with a quarterly allocation with the requirements and regulations changing every 3 months.

Over-regulation is a problem. The local level has no input. This is your field, Senator.

I personally feel that FmHA New Mexico has not had the leadership necessary to unite or support the field staff since July, 1977. This is necessary and the only way to boost morale to a point that the job will once again be a pleasure to go to, and I can once again hold my head high and be proud to say I am employed by Farmers Home Administration.

I thank you for your attention, and remain available should further information be necessary.

Sincerely,

James L Walter

JAMES L. WALTER
Assistant District III Director
Farmers Home Administration
Las Cruces, NM

RURAL HOUSING AUTHORIZATIONS

FRIDAY, JANUARY 15, 1982

U.S. SENATE,
COMMITTEE ON BANKING, HOUSING, AND URBAN AFFAIRS,
SUBCOMMITTEE ON RURAL HOUSING AND DEVELOPMENT,
Santa Fe, N. Mex.

The subcommittee met at 9 a.m. at the Old Santa Fe Courthouse, Johnson and Grant Avenues, Senator Harrison "Jack" Schmitt, presiding.

OPENING STATEMENT OF SENATOR SCHMITT

Senator SCHMITT. The hearing will come to order.

Today we begin the very serious business of the country as well as New Mexico of considering the future of the Federal and rural housing and the principal agency responsible for those programs, the Farmers Home Administration.

These hearings are part of the intensive review process that every domestic Federal spending program is receiving under the new committee leadership in the Senate. The need for budgetary restraint does not allow the luxury of continuing wasteful or ineffective programs. In some cases we have modified programs, and in other cases we have eliminated them, in others we have emphasized programs that clearly have worked and deemphasized programs that have not worked. This overall effort has enabled the new Congress with the assistance of the administration to pare over $32 billion for the fiscal year 1982 budget.

As chairman of the Rural Housing Subcommittee, I have been charged with the responsibility of examining the Federal role in rural housing; asking questions such as, Are these programs needed at all? Do they work? Do the benefits of the program justify their existence?

New Mexico is a rural State typical of others in many respects. Because it is a rural State, and if these programs are not working, then the people of New Mexico are the losers. Similarly, I do not want the programs that are working and needed to be cut drastically and unnecessarily.

The subcommittee has come to New Mexico to hear from those who best know the subject—people living in rural areas, familiar with the Farmers Home Administration, dealing with the Farmers Home Administration, with the real world. This approach may not seem unusual to many New Mexicans, but it is almost revolutionary in many aspects of Washington life.

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This is the first field hearing the Rural Housing Subcommittee has held since 1977. The new Republican leadership of the Senate believes in much more frequent and comprehensive review of Federal programs and in the absence of such review, we find that significant problems develop as the bureaucracy strays from the intent of Congress and that of the voters.

Today's hearings will focus on these basic three questions: How well do Farmers Home and HUD programs meet the needs of New Mexico?

Where there are problems, is the administration of the program at fault or is there legislative inadequacy?

Finally, can the private sector meet the housing and financing needs of rural areas or does it clearly require Federal assistance?

My preliminary analysis of the situation in New Mexico has not been reassuring. Based on what we have found so far, it appears that Federal programs are not designed to meet the needs of Western rural areas specifically; that the past administration of Farmers Home programs in New Mexico has been so bad that where funds have been available, those funds have not, on balance, been well used, and significant funds have been returned to the Government although available for allocation. The rural housing programs have been costly and have not gone to those who need help the most.

We have found some very serious specific problems. For example, New Mexico has had 30 subsidized apartment projects funded in 5 years, while the national leader, North Carolina, has had 180 programs funded. This has occurred although New Mexico is almost twice as rural as North Carolina in terms of per capita population per unit area, but New Mexico also fares badly within the region; that is, within the region of the Southwest. Although New Mexico has more families eligible for assistance and more substandard housing than Utah, Nevada, Colorado, or Arizona; it has had half the number of section 502 loans than these States have had for the last 5 years.

Farmers Home housing programs are meant to serve rural areas, yet we have found that in New Mexico 24 percent of the total Farmers Home activity in 1981 occurred in our urban counties.

Farmers Home housing programs are meant to help poor people, yet in Luna County 89 percent of the population is eligible for subsidy; in Mora County 96 percent of the families are eligible, Grant County 81 percent, Catron County 92 percent and so on. There are poor counties, and it is clear they have not been receiving the assistance for which they are both eligible and in need. With the limited dollars available to assist our poor, we should target our assistance to those who are in most need. We will never have sufficient funds to assist all of the currently eligible population and to concentrate on those at the upper scale of eligibility does to this Senator seem to be an emphasis misplaced.

We must also consider at what cost we are providing housing. In the section 502 program, we are spending almost $3,700 per year per family to help those families buy a house, yet in six counties we find 40 percent of the families are delinquent in their account. The rental assistance program is even more expensive; we spend $7,500 per year per family. Isn't there a less expensive way to help people find affordable housing? Should we focus instead on economic development or rehabilitation or some other way of providing broader scale assistance?

We have found that although New Mexico is the sixth most rural State in the Nation, with the seventh poorest population, and with a poorer, more rural population than any of our neighboring States, no matter what criteria you use, in spite of these things, New Mexico ranks 38th in the receipt of Farmers Home funds, just the opposite of what you would have expected and what appears that is needed.

Moreover, of the limited funds we do get, the New Mexico Farmers Home office has not used its full allocation of funds. For example, during fiscal year 1980 and 1981, New Mexico has returned over $9 million of its allocation. As a result, something around 2,000 New Mexico families for whom funding was available and for which they were eligible did not receive assistance.

I do not know yet why all these sad facts are true. Our hearing in Las Cruces yesterday did provide considerable information on these problems.

In some cases, overregulation is the fault. In some cases the problem is due to legislation designed by legislators not concerned with the need to the rural West since they are predominantly from the East. That is the purpose of these hearings today—to determine what is right and what is wrong with our rural housing programs and then to move to correct the problems.

We are indebted to the witnesses that are appearing here today and those that provided information yesterday for their help and advice. Without their assistance, we wouldn't know where to start; we wouldn't know nearly as much as we have already learned. They will help us discover realistic, practical solutions to some very difficult problems. Such as, yesterday it came to light that some of the reasons why the Farmers Home Administration is not attractive are that the loans under Farmers Home Administration are not attractive in the secondary mortgage market unlike loans that come from the Department of Housing and Urban Development, the FHA program.

We find that productivity at the county supervisor level is extraordinarily low, not only because their attention is divided between many competing Farmers Home Administration activities, but also because of regulatory delay up and down the line.

In addition, there has been, for a variety of reasons—some of which we don't fully understand yet—a deemphasis on rehabilitation in favor of new construction.

Our first witness this morning to help us continue the examination of these problems is our own New Mexican colleague and economist Jerry Jordan, now of the President's Council of Economic Advisers. He will describe the administration's view of the Federal role in rural housing and the outlook for housing in general in the country. This testimony will provide an important benchmark from which we can evaluate the testimony that we receive today and at subsequent hearings in other parts of the country as well as in the Nation's Capitol.

Jerry, it's good to have you with us. I know you enjoy coming back to New Mexico. I, of course, have more opportunities than you do and I just tell you to eat your heart out, but for this trip, enjoy yourself, and we certainly appreciate your assistance.

STATEMENT OF JERRY JORDAN, COUNCIL OF ECONOMIC ADVISERS

Mr. JORDAN. Thank you very much, Senator. It is a pleasure to come back to New Mexico as often as I can.

I'm happy to have this opportunity to be with you today to talk about a problem that we view as being very, very important.

The number of programs and the size of programs designed to try to help people afford decent housing has increased extremely rapidly in recent years but with less and less effectiveness and we're very concerned that we try to devise more and better shelter for the same amount of moneys.

We think that in many ways the Federal programs have turned to be counterproductive over time; certainly, overall general monetary and fiscal stimulus, the inflation that has been created, the high interest rate environment that was created, made the housing situation much, much worse and it means it will take a lot more Federal dollars to provide the same kind of support, so we begin with the view that helping to find adequate housing begins with sharply reducing inflation and getting interest rates down, making housing affordable as the first step and then to redesign some of the programs that are supposed to help housing, to make sure that they actually are providing the help that is intended.

FEAST OR FAMINE CYCLES

We have been through several feast-famine cycles in the last couple of decades, each one getting more severe than the prior one and shorter, and something is done on a temporary basis to help housing go very strong for a couple of years and then it gets knocked down very hard by the overall restraints of trying to deal with inflation, deal with the high interest rate environment, deal with the misallocation of credit that was created; and we think that this has got to stop.

We now have to try to adopt policies that will last over a longer period of time. We would like to see several years of 2 to 2½ million new housing units being produced rather than 1 or 2 years of roaring up to a high level and then heading back down to a million units or so where we ended in 1981.

Quick fixes simply don't work any longer. Earlier efforts to help the housing industry in a very general way by Regulation Q ceilings on the rates that banks and savings and loans could pay to depositors appeared to have a shortrun positive effect especially to monetary policies designed to try to hold down interest rates, to help individuals afford mortgages to buy housing. But the results of these programs turned out to contribute to high and rising inflation and interest rates and those institutions didn't get any money at all available for mortgages and wound up hurting housing in the long run.

It was well intended and it had temporary beneficial effects, but it ultimately made things worse.

The Reagan administration has adopted policies to sharply reduce inflation and interest rates over the next several years; it's already starting, it will continue in 1982 and there will be significant improvements in the overall financial markets and in housing, per capita housing, as 1982 progresses.

Senator SCHMITT. Is that a guarantee of no retreat policy?

Mr. JORDAN. It's a guarantee of no retreat. Yes, sir; renewed emphasis to make the same policies work. We've made some progress in 1981, not as much as the President would like and we've showed new determination to make those same policies, that we're strongly committed to, more effective in 1982.

In 1980, credit controls were used for 3 months in an effort to drive down the cost of credit and reduce the highly inflationary environment, trying to do something about the inflation and interest rates, but that meant less funds were available, it actually hurt housing and it hurt the automobile business even though the price of credit dropped dramatically.

CREDIT CONTROLS ABANDONED

The previous administration got very nervous after only a couple of months of those credit controls and abandoned them and when they abandoned them interest rates started to rise sharply. It was viewed that we were in a recession; there was concern that interest rates rising while we were still in high unemployment would prolong the recession or might mean a slow recovery, and so the Federal Reserve rapidly expanded the availability of money and credit, finally pulled down the cost of credit and that backfired on them.

This effort to hold down the cost of credit artificially through voluntary stimulus rekindled the inflationary pressures to such an extent that by the end of 1980, we had the highest level of short-term interest rates we had ever experienced. We had 13 percent inflation for 1980 as measured by the Consumer Price Index, mortgages were rising rapidly and the housing industry was being severely hurt by this high inflation and high interest rate environment.

In 1981, then this administration adopted a policy, with the support of the Federal Reserve, to sharply reduce the growth of money supply and that was accomplished which was the first step to bringing down inflation and interest rates. It took longer than we thought in 1981 to make a start, but by August, we had hit the peaks on interest rates, inflation started dropping in the fall; this morning at 9 a.m. eastern time the Bureau of Labor Statistics announced that the Wholesale Price Index for December was less than a 4-percent annual rate.

We finished the year of 1981 under 7 percent inflation on reducing prices. We finished the year on consumer prices—the specific figure has not been released yet, but for the full year it will be under 10 percent down from over 13 the year before.

We're now looking in 1982 for consumer prices to rise only in the 6 to 7 percent annual rate; producer prices probably less. Interest rates are generally expected to follow a downward trend as inflation comes down, as the inflation premium that is in market interest rates currently comes down. So we view our policy as being a low-interest rate policy. The way you get low interest rates is to get the inflation psychology out of the economy.

One thing that hurt housing more than anything else in the recent past was the increasing tendency for people to view housing as a speculative investment, even more so than shelter and this drove up housing prices to such a considerable extent that the combination of the high prices compared to people's income, the high interest rates, again because of inflation, and the monthly mortgage payments that are associated; it just put housing out of people's reach.

The peak of the 1977, 1979 boom in housing, people were paying in some of the larger markets of the country 14 and 15 times gross rental receipts to buy rental properties. There was no way they could make money on that based on the rental income that they received. In fact, they had a negative cash flow, but they were basing their investment decision on the assumption that they could sell the property to somebody else a year or two later for even more than they paid for it; sort of a bigger fool theory, driving the inflation in housing prices; that has stopped now, and we thing that's extremely important not to let it get started again.

INCREASE IN NEW HOUSING

We want a gradual buildup now in housing starting in 1982 that will carry into a very strong year in 1983. We're looking for a 50-percent increase in new housing starts by the end of 1982 compared to where we are currently, and it will be rising at that time, so by the second half of 1982, we will have considerably more strength in new housing than we have at the present and it will provide a very strong base for growth in 1983.

Senator SCHMITT. Jerry, this issue of money supply is often dealt with what would seem to be in esoteric terms. You know that I agree with you as a result of our previous contact and our current joint activities on the Gold Commission that the historical correlation of excessive rates of growth in the money supply in inflation is very strong and that I would just want to emphasize how important your statement is relative to the growth rate of money supply during the last year.

At a 5-percent growth rate, we can clearly expect later on this year to see that have a significant direct effect on the inflation rate.

The historical evidence is very strong that the difference between the rate of growth of the money supply and the rate of growth of the gross national product is a good historical measure of the rate of inflation.

The only difficulty in seeing that is that there is a delay effect. If you see an increase in the money supply, you don't see the increase in inflation for about six to eight quarters in time, but now we can anticipate, if we hold the money supply down, that that effect will act in reverse as we approach the middle to the end of next year.

Mr. JORDAN. That is correct and also the growth of the money supply is a good measure of inflation being built into interest rates.

People tend to think at times with the master creation of money it lowers the cost of credit. It's just the opposite. The way to get lower cost of credit is to have a slow and steady growth of money supply.

We think current mortgage rates around 15 to 17 percent implies that investors expect inflation to continue averaging 10 to 12 percent maybe for the rest of this century, and if we're correct in our policies, the way they're going to work in 1982 and 1983 and that inflation rate gets down to about 5 percent or so, you know, a year from now, even the early part of 1982 we will be reporting inflation only about

5 percent for awhile, and then that inflation premium and interest rates of 10 or 12 percent comes down rapidly.

We're counting on the decline of mortgage rates of 2 to 3 percentage points at least in 1982, which will give us a 50-percent increase in housing starts. Within the next couple of years though, we should see a 5, 6, or 7 percentage point decline in mortgage rates.

Right now as far as people think, we're going to have mortgages again in the 10 and 12 percent range and we think we will.

Senator SCHMITT. Well, I agree with you so long as we are consistent and steadfast in the basic policy that's been put forth in the last year.

If we decide to backtrack on taxes or backtrack on our efforts to reduce the rate of growth of Federal spending, then I'm afraid we'll see just the opposite happen.

Mr. JORDAN. Yes; we do too. The deficit numbers that we're seeing now are quite large especially because of the recessionary types of declining tax proceeds, lower incomes. But we've got to make further progress on cutting some of the growth in government spending that has not been achieving its purpose or else we'll just be throwing more and more money after the problems and not curing them.

PROBLEMS OF REGULATION

You mentioned in your opening statement the problems of regulation and the effect on housing and this is something that this administration has started to pay a lot of attention to as 1981 progressed. We've identified the fact that the cost of housing is attributable to Federal regulations and we think we can achieve the objectives of handling these regulations through more efficient means, and lowering the cost imposed on the homeowner.

Many of the programs—FHA, VA, and others—have had a desirable effect in the past but with reduced effectives, they've stimulated the demand for owner-occupied housing, but at times they have also meant that because of the lower risk, especially with Government guarantees, Government programs, a lot of private sector lenders backed away from the market and sometimes all that happened because the Government got into a program to help housing and then private lenders backed away. Construction financers, mortgage financers, and insurance companies withdrew almost entirely from the mortgage market we think mainly because of Government involvement in the program.

Several private researchers have been studying these issues. One group at Purdue University has estimated that for every dollar of Federal money going into subsidize mortgage credit, 15 cents actually goes into additional housing. The rest of it is sort of feeding the Federal trough for types of housing without increasing the quantity of housing.

Another researcher at Carnegie-Mellon University in Pittsburgh has said that he doesn't think that there has been one additional housing unit developed from the subsidies to the mortgages, in particular mortgage rates because what happens is that people find mortgage credit, the lowest cost form of credit at times through the subsidies and so we have a lot of second mortgages on houses or even parts of first mortgages really as disguised car loans. With mortgage credit as the cheapest form around, people have less equity in their housing and more mortgage debt and rather than take out a car loan or pay for their trip, their vacation trip, through another means, they borrow more against housing. This helps to drive up the price of housing.

In order to encourage private lenders to return to the housing market in a very significant way, we think it is essential that we give signals now that the Government would gradually phase out of subsidizing certain activities in mortgage credit.

In the 1977, 1979 cycle, there were attempts by very large private lenders, Bank of America, Wells Fargo, City Bank of New York, to start to package mortgages similar to the Government guaranteed market, but they simply couldn't compete because the Government guarantee is worth more than the private guarantee because a lot of banks got in the habit of—they wouldn't even make mortgages, larger banks wouldn't make mortgages because they could satisfy their desire for housing-related credit by Government-guaranteed package mortgages and they wouldn't buy the private mortgages. So the individual found that he was less and less welcome to go into his bank, in the special case of large banks, to take out a mortgage.

It was so much easier for the bank to go into the marketplace at very little cost——

Senator SCHMITT. Secondary market.

Mr. JORDAN. Secondary market and purchase the mortgage. We want to get signals to the private sector that they've got to take that market over and they're willing to, they're ready to as long as they don't have to compete with Government subsidies that reduce the profit to them.

Senator SCHMITT. All right, you mentioned this Government subsidy, basically as a way of allocating credit within the marketplace——

Mr. JORDAN. Yes.

Senator SCHMITT. And it's one of many things that the Government does that we often forget about.

We talk a lot of the deficit that comes from the direct spending of the Government being in excess of revenues, but in addition to that, this kind of allocation of credit, whether it's a housing subsidy or hospital loan guarantee or anything of that kind has the same effect, does it not? It puts Government-sponsored borrowers at the head of the line with the Government and the borrower together paying whatever the market is demanding in terms of interest rates.

Mr. JORDAN. The Government always gets its first; as you say, at the head of the line.

By some estimates, total Government borrowing this year, on budget, off budget, and Government-guaranteed borrowing will account for 50 percent of the total funds raised in the market and this is driving out, crowding out, private sector forms of——

Senator SCHMITT. What would that 50 percent total in terms of billions of dollars?

Mr. JORDAN. It would be approaching $200 billion of total funds raised.

Senator SCHMITT. And generally, in the last few years, that type of borrowing, that combination of borrowing has been 50 to 100 percent more than the actual deficit that we call the Federal deficit, is that correct?

Mr. **Jordan**. That's correct, and the combination of these two growing so rapidly has been an enormous increase in the last 5 years, the Government guaranteed policy and you add that to the Government off budget borrowing and now the big borrowing on budget. The Federal deficit is like a giant sponge in the credit market.

Senator **Schmitt**. Not only sopping up the credit but keeping the interest rates high?

Mr. **Jordan**. Yes, very definitely keeping the interest rates high which means the average individual simply can't compete for the funds.

ACTIONS TAKEN

Several actions have been taken that we think are going to help the flow of funds into the financial industry so that they have more money available to them.

The employment Retirement Security Act, the RSA, has some obstacles to private lender, especially pension plans, employee pension plans, for mortgages. President Reagan on December 3 removed those obstacles; those private employee pensions now can hold mortgages for security in their portfolio, and that will release the demand there.

He's looking at several proposals right now to further increase the ability of pension funds and life insurance companies to hold mortgages whether they're Government guaranteed mortgages or ordinary conventional mortgages in the marketplace.

Several actions have been taken on regulatory relief that will reduce costs of housing. We're looking at, right now, estimates of about 20 percent of total housing costs which can be attributed to Federal, State, and local regulations.

If we can reduce that just by 10 percent of the excess cost, 2 percent of the total cost of housing, that will save new home buyers $2 billion a year in housing costs.

Senator **Schmitt**. Does that include, that estimate of cost include the result or the consequences of delaying, in being able to consummate a deal?

We had testimony yesterday where one group working with Farmers Home because of delay had to go back and renegotiate the land deal that they had at a cost of about $500 an acre, I believe, to do that; now those costs would be over and above that?

Mr. **Jordan**. Yes, that delay means that you've got money tied up, the cost of credit, that would be in addition to, this $2 billion is just into the total cost of housing to the individual, not really reflecting what the cost of the builders would be including the delays.

Several elements of the tax legislation that the Congress passed in August will decrease the availability of funds to the thrift industry to make more funds available to housing.

We're looking for an increase in the personal savings rate from recently around 5 percent up to its historic rate of about 7 percent, that will mean an additional $50 billion in savings; a total of about $150 billion in personal savings in 1982.

We think a lot of that will go into housing. The tax law, as you know, included 175 percent declining balance depreciation for rental housing. New credit in the legislation for rehabilitation of older commercial structures and historical properties in the period of between selling one house and buying another of the so-called rollover extended from 18 months to 2 years and individuals can now exempt $125,000 of appreciation in housing compared to $100,000 last year. There are several things that were done that we think will help the ordinary individual in trying to decide whether or not he can really afford housing or not.

Senator SCHMITT. Isn't there an indirect impact of the encouragement of IRA accounts because it does provide long-term money in contrast to the shorter term money that the so-called all-savers provisions provide? All-savers may help in a short term, but it is short-term money; it's long-term investments.

Mr. JORDAN. We really don't believe the all-savers is going to help housing the way the savings and loan industry thought it was going to.

In fact, I think a lot of political capacity was spent on passing that as a substitute and we thought that would have helped a lot more.

Senator SCHMITT. Do you see it possible this year to, not to repeal the all-savers provisions; I think that would be counterproductive at this point, but to accelerate the availability of specific exemptions of savings income in order to encourage savings, as you are aware of the measure that I offered was accepted in part and starting in 1985 a 15-percent exclusion of savings income from taxation, that, of course, could be moved forward a couple of years and it could also be increased not only in percent but to include other types of investment. Do you think that's possible that that could be done?

Mr. JORDAN. I think it would be much more effective, encouraging real savings investments something like the all-savers.

The all-savers actually discouraged certain types, let's say, in your proposal, once it does become effective will have a more general effect and if you could move that forward by even a year or so.

Senator SCHMITT. I've been very encouraged by the attitude of the Treasury the last few times I've talked to them and I think they may be leaning that way also.

Mr. JORDAN. Better than last year.

Senator SCHMITT. Yes.

Mr. JORDAN. Also, we're looking at a proposal for individuals on their individual retirement accounts and they can invest in their home mortgage, they can have a tax-free account that turns out to be prepayment of some of the principal of their own mortgage. It would give the individual an incentive to save in the form of holding greater equity in his own home on the tax exempt basis simply because it would help provide for his own retirement later on in getting that house paid off or at least getting more of his own equity. That proposal has not been worked out in all of its details yet, but we think it's an idea that has some merit.

Take a Government like Canada that doesn't have a massive Government guaranteed program and doesn't have many other approaches, yet they have more funds available directly to help housing.

Also, as you are aware, the President has a housing commission that will report in April and this commission in its final report will have a number of proposals to help housing. As you mentioned in your opening statement, there is an enormous amount of money that is intended to help low income people afford housing but it doesn't seem to be helping them.

COMPARING DOLLARS

When you look around and compare the dollars that are being spent with the condition of housing for some people, you wonder why they are not more effective, so one of the proposals is for vouchers on rental housing where we believe that, as an example, if you gave an individual $2,000 a year, that would be around $170 a month or so, of support, it goes to the individual and they can go out on the market and choose housing.

In the past, the program seems to have driven up either the purchase price of the housing unit or the rental cost to the individual. It was just costing a lot more money. If you give the money to the individual to subsidize the rent and they shop on the market and they're averaging $170 per month in rental support then they have the incentive to find the best housing they can for the money.

We think this competitive process will keep from driving up housing costs.

Senator SCHMITT. I just might mention that in New Mexico the estimates are that there is an average of an 18-percent vacancy rate in rental housing, 8-to-15-percent vacancy rate, obviously variable from place to place, but that's still a great deal of empty rental housing that is available, and the evidence is that the price of their rental housing is considerably less than the subsidized, the cost of subsidized housing in Farmers Home project.

Mr. JORDAN. Yes; this proposal is not final yet, but after worked on would allow the low-income individuals to go into that market. You wouldn't have the grouping or the bunching of low-income units into these so-called low-income housing, sometimes high cost low-income housing and they can be where they want to live.

Senator SCHMITT. Well, that again is the issue that has come out again and again, not only in our research, but in the hearings yesterday; is that the Farmers Home programs in general are serving the upper end of the scale eligibility, upper income; but those at the lower income levels are not being served at all.

Mr. JORDAN. Yes, that's right. We found that some programs on a national average basis were costing the Federal Government $450 for each individual. I would think that for $450 a month, you could afford some pretty decent housing, much better than what they're getting.

The question is, How can that same amount of money in total provide better housing to the individual? We think the free choice of the individual, let the individual make the decision of where he wants to live and the quality of the housing that he's getting for his money will make it more effective.

We really do have a lot of confidence in the individuals to make those decisions for themselves.

Senator SCHMITT. Is that the completion of your semiprepared testimony?

Mr. JORDAN. Yes, it is.

Senator SCHMITT. The full text of your testimony will be included in our record and we may have a few questions for that record as we explore the data that is being given to us.

SYSTEM OF VOUCHERS

I would like to have you comment a little bit more on, if you can, on what you think the overall economic consequences of about what your system might be. Now, when I say that, I mean a system of vouchers available for rental housing not for any other purpose.

Mr. JORDAN. The assumption is that when you give the money only to the builders or to the landlord, you distort the housing market in such a way that the average cost goes up; it gets a lot of the Federal support, is absorbed by people who are administering the program, by the builder, by the landlord, but are not really helping the individual that they're expected to help, the low-income individuals.

So, the idea of a voucher is to go the other way, give the support directly to the individual and that individual can go with the value of the voucher, in dollar terms, combined with any of their own income; they can afford to put into housing, they will decide how much housing they can really afford.

For instance, if the voucher is worth $170 a month and the individual, with what income they do have, from working or from other support programs, could add $80 to it then, per month, then they have $250 a month say, for an apartment or rental house costing them personally $80.

Now, if they see someplace else in the same community or where they want to live for that same extra $80 of their own that they are putting in together with the Government money, they could get better housing, a place that they like better and then they'll move and that kind of thing that that individual does for himself will help hold that price down.

Senator SCHMITT. So in most cases where there may be, say a $400 a month subsidy for rental housing, you could conceive of a voucher system that would adequately serve three people for the same amount of money that is now serving one, something on that order, two to three.

Mr. JORDAN. Yes, something on that order.

Senator SCHMITT. Now, Jerry, what—would you give us a little bit of a general insight into the effectiveness or noneffectiveness, as you see it, of an increased emphasis on rehabilitation rather than new home construction.

Mr. JORDAN. Well, quite a few aspects of the recent tax legislation make that more attractive than it has been in the past. Also, some of the regulatory reform shifts some of the burden of cost of some of the Federal regulations. We think this will make rehabilitation more attractive and people can comply with the standards at less cost.

The results of 1981 show that rehabilitation has started to pick up in some areas of the country. We think it can do so a lot more over the next 2 years. There are some other things that some localities have to consider also in what they can do to make this more attractive.

Where properties are held in a trust or by a tax-exempt owner, organization, or anyone that is tax exempt, there's little incentive to refurbish, to renovate, to maintain the quality of a rental unit. Often they tend to deteriorate, and those are not Federal problems except Federal tax-exempt status, but we think there's a lot of things local government units can do to make it more attractive in their own communities. They should be able to find out what the problems are in their communities and do what they can to remove the obstacles and barriers that may have arisen inadvertently. Some of these things were done with very good intentions in an earlier period of time, but now they may be counterproductive.

Senator SCHMITT. Could we generalize and say that it is your position or maybe the administration's position that we should try to provide an opportunity for people living in their own homes even though they do not meet current standards for Farmers Home housing, let's say subsidized housing, that with rehabilitation systems they might be able to improve the quality of that home by a factor of two or three and still not meet the standards but nevertheless have a significant improvement in the quality of their lives as a result of the system.

Do you think that that would have an advantage or should we continue to strive to reach a certain minimum standard even though it may prevent access to that standard to a significant number of people?

Mr. JORDAN. I think the objective should be improvement and to provide an incentive and support for the improving of existing units rather than the only way that we can have better housing is to move into a different one.

I think it would be desirable to give them support and incentive for improving where they are.

Senator SCHMITT. Can you conceive of a voucher system being used for rehabilitation at all?

Mr. JORDAN. Yes, I think a voucher system would be a more efficient, more effective way to accomplish that than some of the programs that have been tried.

If they could offer a lot more individual initiative, letting the individual make the decision about what kind of improvements, kind of quality they are getting for their money.

Senator SCHMITT. Jerry, we're going to move on to our next panel and start digging into the local situation in New Mexico. We want to thank you very, very much for your cooperation and attendance and wish you well in guiding the administration's hand down the path of consistency and commonsense.

Mr. JORDAN. Thank you very much.

Senator SCHMITT. We will do our best on the other side to make sure where the administration has strayed in its priorities that those priorities are adjusted properly without losing the overall objectives of the policy.

Mr. JORDAN. I appreciate your support. It's going to be an interesting year.

Senator SCHMITT. Yes, sir; it surely will be and I'll look forward to seeing you soon in Washington on the Gold Commission and other opportunities we can put together. Enjoy your visit to New Mexico.

Mr. JORDAN. Thank you very much.

[Whereupon, the prepared testimony of Jerry Jordon was admitted and is as follows:]

FACTORS AFFECTING HOUSING IN THE EARLY 1980'S

Remarks

by

JERRY L. JORDAN, MEMBER
COUNCIL OF ECONOMIC ADVISERS

In the 1960's and 1970's there were several "feast or famine" cycles in the housing industry, each more severe then the last. Since 1978 U.S. housing starts have followed a general downward trend. By returning housing and related goods to the free market we believe this steady decline can be reversed.

To accomplish this the Administration is relying on: 1) the maintanence of a slow and steady non-inflationary growth of the money supply, with a corresponding decline in interest rates; and 2) a gradual removal of the Federal Government from its role as a regulator and supplier of mortgage funds. To date progress has been made on both fronts.

Inflation and Interest Rates

During 1981 the money supplies grew at an annual rate of about 5 percent. This was substantially lower than the growth rate of 1980. Consequently the rate of inflation dropped from 13.5 percent in 1980 to approximately 9 percent in 1981, and is expected to drop 2 or 3 points further in 1982. As inflation declines, the inflation component of interest rates also declines. Thus, from May to the end of December, 3-month Treasury bill rates dropped 5 full percentage points, cutting the rate by almost a third. Mortgage rates also have been dropping since October. From the first week in November to the first week in December mortgage rates registered their first significant drop since the summer of 1980. This decrease may not continue in the short run as other long-term rates have been recently edging upward and mortgage rates usually lag these long-term rate changes. In the remainder of 1982, however, we believe that short-term and long-term rates will generally head downward. This will occur as the Federal Reserve moves to further moderate the growth in the money supply and as the inflation premium in interest rates declines.

The housing industry will benefit directly from this decline in inflation. First, with lower rates of inflation, disintermediation will be less likely. Savers will have less of an incentive to withdraw their funds from savings institutions as declining inflation reduces or eliminates the discrepancy between market rates and interest rate ceiling levels. Secondly, a lower and less volatile inflation rate will reduce the interest rate risks of lending institutions and borrowing costs for prospective homeowners.

Federal Government Credit Guarantees and Regulations

The Administration's policy is to reduce government intervention in the mortgage market. This includes reducing the role of government-guaranteed mortgage credit programs and elimination of unnecessary Federal regulations that add to construction costs.

The effects of Federal programs on housing have been mixed. Introduction of Federally insured mortgages in the 1930s through FHA and later through VA increased the demand for housing as the rate of return required by lenders and paid by borrowers decreased as risk fell. This increase in demand, however, probably led at least in the short run to a higher price for housing. Several studies have indicated that as the Federal Goverment moved into the mortgage market purchasing mortgages, other traditional institutional lenders left this market. As the Federal Government and its agencies purchased mortgages the price of these mortgages was bid up relative to what they would have otherwise been without Federal Government intervention. As prices were bid up, rates of return fell. Insurance companies and pension funds consequently withdrew from the mortgage market rather than accepting these lower rates of return. The result of this "crowding out" of private institutional activity was that Federal Government credit programs were not very effective in creating new housing starts.

Hendershott and Villani estimate that for every dollar spent by a Federal program in the form of mortgage credit, only fifteen cents went toward actually increasing the number of housing units over the level that would have existed if the Federal Government had not been involved. They also found that short-term interest rates increased at a relatively higher rate because of debt issues by Federal agencies.

Meltzer looked at the effectivesness of increasing the number of housing units by increasing the availability of mortgage money. He found that as mortgage debt increased as a percentage of total liabilities, the ratio of housing to total assets did not change. He argued that this result could be explained, in part, because borrowers can use the funds from mortgage loans to finance expenditures other than housing. Since the government subsidizes mortgage loans, it might be cheaper for a person to take out a second mortgage to buy a car than to take out a conventional car loan at a bank. Therefore, he concludes that increasing the mortgage debt through subsidies does not necessarily mean increasing the number of new housing units.

In an effort to gradually rectify this apparent credit misallocation and subsidy, the President on November 5, 1981 proposed a $20.3 billion reduction in new FY1982 Federal loan guarantee commitments. Additional policy actions to reduce Federal and Federally assisted credit commitments are planned for FY1983 and 1984. Of that total, $16 billion would come from the Government National Mortgage Association loan guarantees of mortgage backed securities issued by private issuers.

It is interesting to compare the housing policies of the U.S. and Canadian governments and the performance of the housing industry in those two countries. In Canada interest on mortgages and property tax payments are not deductible for income tax purposes, nor has any Canadian governmental entity bought mortgages or extended credit to lenders during periods of escalating rates. However, as can be seen from the attached chart, these facts did not deter the Canadian housing market from going into a slump after the U.S. market and recovering before the U.S. in the 1974-75 recession. Although housing in both countries went into and recovered from the 1980 recession at about the same time, the Canadian industry resisted the 1981 slump longer than did its U.S. counterpart. Thus, it appears that the Canadian housing industry recovered from the housing slump without government assistance.

Other U.S. government regulations restricted the movement of funds into the housing market. For example under the Employment Retirement Income Security Act (ERISA) of 1974 technical obstacles were erected to investment in residential mortgages by private employee pension plans. On December 3, 1981 the President proposed changes that would remove these technical obstacles.

Regulations that increase the cost of housing are also under review by the President's Task Force on Regulatory Relief. First, HUD's minimum property standards are being reviewed. These regulations add to the cost of housing by specifying some aspects of the quality and size of new Federally-insured housing. For example the regulations specify:

-- the maximum distance allowed between a unit and parking spaces;

-- minimum room sizes;

-- a coat closet for all units;

-- 42" railings for balconies; and

-- provision of space to store removed snow.

Secondly, changes in the Department of Labor's Davis-Bacon "prevailing wage" determinations are being made. The Administration is changing the method of calculating the "prevailing wage" used on Federal construction projects to more accurately reflect local labor market conditions. More accurately determined and occasionally lower wage rates will allow more subsidized housing units to be constructed with a given amount of funds.

Thirdly, a thorough review is being made of various environmental regulations. These regulations can add to the cost and availability of land that may be used for the development of low and moderately priced housing.

The changes that result from the review of these regulations may help reduce the 20 percent of total housing costs that have been attributed to Federal, State, and local regulations by some analysts. Elimination of as little as 10 percent of these excess costs (2% of total costs) would save new homebuyers over $2 billion annually.

Flow of Funds

In addition to encouraging pension fund investment in mortgages through the lifting of ERISA obstacles, the Economic Recovery Tax Act of 1981 contains several provisions which will encourage personal savings and provide direct tax advantages to housing. Key elements of the Act are:

- The $500 increase in the maximum contribution and the expansion of eligibility for individual retirement accounts (IRA), which will increase savings.
- The marginal tax rate reductions, which will expand investment funds.
- The accelerated depreciation of rental property (deductions may be taken over a 15 year period instead of the previous 30 to 40 year period), which will encourage new investment.

- The accelerated 175% declining balance depreciation schedules for rental housing.
- New tax credits for the rehabilitation of older commercial structures or historic property.
- Changes affecting individual taxpayers that:
  - prolong the period for rollover of a principal residence from 18 months to two years; and,
  - increase the amount of the one-time exclusion of tax on the gain from sale of a personal residence from $100,000 to $125,000.

Estimates for 1982 suggest that these saving incentives will be instrumental in generating an additional $50 billion in personal savings.

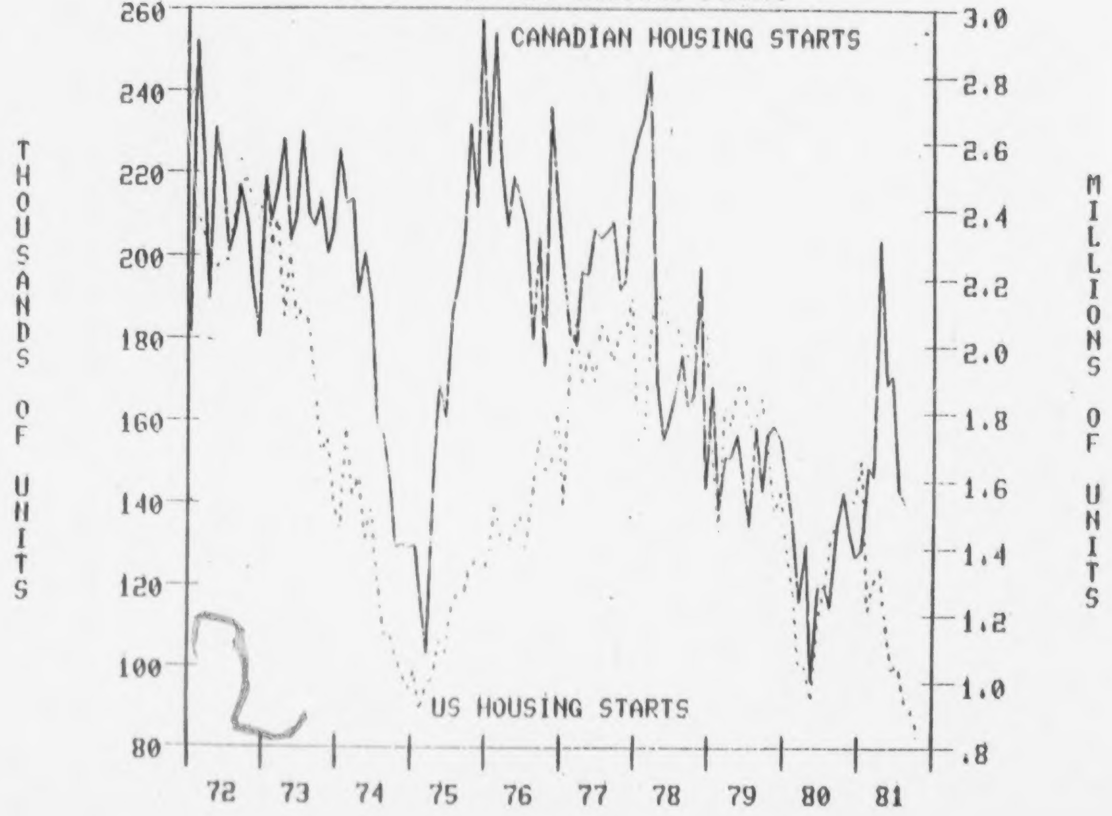
Subsidized Housing

Currently, nearly 3.4 million households receive housing assistance through HUD's Section 8 public housing and housing for the elderly and handicapped programs. Despite the need to reduce total government expenditures, HUD subsidized housing program will serve an additional 200,000 households by the end of 1982.

Conclusion

In conclusion, the Administration believes that by encouraging moderate growth in money, nominal interest rates will fall as the inflation component of these rates decrease. This fall in the interest rates, when combined with deregulation of the mortgage and housing market and increased personal saving and foreign investment, should make possible a sustainable recovery in the housing industry.

MONTHLY AND SEASONALLY ADJUSTED
US VS. CANADIAN HOUSING STARTS



Senator SCHMITT. Our first panel this morning will provide an overview of housing programs in New Mexico with we hope special emphasis on the problems that New Mexico faces uniquely on more so than other portions of the country.

The first panel consists of Mr. Lara, director of the New Mexico State Housing Authority, Mr. Trujillo, director of the Taos County Housing Authority, and Mr. Lockwood. If you all would come forward.

Gentlemen, welcome. I think the best thing to do is to move quickly through your either prepared testimony or summary of saying if you choose to summarize in order to stay within the stated 10 minutes, then please do so.

The entire text of your testimony will be made part of our record. Mr. Lara?

STATEMENT OF NOE LARA, DIRECTOR, NEW MEXICO STATE HOUSING AUTHORITY

Mr. LARA. Mr. Chairman, ladies and gentlemen; my name is Noe Lara, I'm the director of the New Mexico State Housing Authority. First of all, I'd like to thank the chairman of the Senate subcommittee for the opportunity to comment.

The State Housing Authority was created in 1975 under the State Planning Division of the Department of Finance and Administration. Our overall goal is to provide State assistance in order to improve the housing conditions of New Mexican families, especially those that fall within the low and moderate income level.

Some of the activities that we undertake are technical assistance, training, advocacy, information dissemination, and program administration.

Our technical assistance goal continues to be to strengthen existing delivery mechanisms and to create new ones in order to fill an unmet housing need and in our training program the goal is to develop policy decision capabilities as well as to improve the technical potential of housing sponsors. Our advocacy goal is simply to ensure that the State of New Mexico gets its fair share of Federal housing dollars and that New Mexico's unique multicultural and rural character is taken into consideration when the Federal Government develops housing policies.

Our information dissemination goal attempts to provide up-to-date information on the status of existing Federal programs and to elaborate on State and Federal housing issues. We have administered a couple of Federal programs and I think we've done some pretty successfully.

The letter from Senator Schmitt inviting me to testify asked that six specific items relating to the advantages or problems caused by Farmers Home regulations and procedures be addressed. I would like to make a quick comment that the issues raised perhaps had some more validity some 3 years ago when we had enough farm programs or prospects for the same moneys. They don't seem as relevant in light of severe proposed cuts in the fiscal 1983 budget.

APPLICATION PROCESSING PROBLEMS

Yes, New Mexico users of Farmers Home moneys have encountered application processing problems. Yes, developers have run into problems in not receiving in a timely fashion, requested drawn-down funds. We would like to see Farmers Home personnel better trained in the administration of programs such as the section 504 loan and grant program and in the section 523 self-help housing programs and in section 515 rural rental program. Granted, some sensitivity on the part of some county supervisors and State officials would enhance Farmers Home image and pershaps result in more efficient processing. No one can argue the fact that if the St. Louis finance office were in Albuquerque or Santa Fe, all sponsors of housing projects and Farmers Home, both would be pleased.

Regarding the question of whether the current structure of Farmers Home is sufficient, let me comment that there is nothing wrong with the existing structure.

The State, district, and county office system provides for more direct contact with the intended users of Farmers Home programs. I am told by the Housing Assistance Council that Farmers Home homeownership programs, compared to HUD programs, have lower cost per home mortgage, lower rates of foreclosure, and experience lower losses to the Government. Compared to a private mortgage company, Farmers Home housing programs servicing expense was found to be 20 times higher, but Farmers Home made 39 times as many loans.

Senator SCHMITT. Mr. Lara, if I could just interrupt, just so it's clear on the record, the evidence that we gathered so far contradicts that.

We have found, for example, that the HUD 235 program which has private sector servicing, has a delinquency rate, for example, half of that of the section 502 program, so it's not all black and white.

Mr. LARA. We're familiar with Mr. Stockman's way of gathering statistics. There are several——

Senator SCHMITT. Please proceed.

Mr. LARA. Allow me to point out to you what I feel is the real issue that we should be addressing today and this is whether Congress is going to allow the administration to abandon the commitments made in 1937 and reaffirmed in 1949 to provide decent, safe, and sanitary dwellings for all Americans. The measure of our society, according to the late Senator Hubert Humphrey, is how we as a Nation serve the housing needy of those deprived of decent housing. He stated then in 1977 that he was afraid that we had not nearly measured up. I wonder how Senator Humphrey would feel if he were alive today.

The December 7th Congressional Record, which included OMB's budget proposal for Farmers Home shocked many of us. Other reports on the proposed budget confirm an administrative move to drastically cutback funding in rural areas.

The following are some preliminary figures which OMB is proposing without too much of a fight from the National Farmers Home Office: The section 502 home ownership program loans $900 million; Congress appropriated $2.3 billion for fiscal year 1982. The section 515 rural rental program, $200 million; Congress appropriated $940 million for fiscal year 1982. Rental assistance, $185 million, but only to provide for the extension of expiring subsidy contracts. Congress had appropriated $398 million for fiscal year 1982.

As the USDA proposed OMB budget includes no funding for rural planning grants, mutual self-help grants, self-help housing site loans, and rural counseling grants.

Allow me to just discuss a little bit about rural America.

Senator SCHMITT. Allow me to interrupt again, but there have been no numbers proposed in Congress. There have been a lot of rumors but no numbers that we have seen in this subcommittee or otherwise.

Mr. LARA. I understand, sir, that the President will give his proposal shortly in his 1982 budget and these are some figures that we have obtained from the December 7th Congressional Record, and I understand that those are subject to change.

Senator SCHMITT. Those were not even official figures of any kind. I'm not saying that there won't be some proposed cuts, but I think we had better be careful about what figures we use.

Mr. LARA. That's right. I think the point is that there are going to be these cuts and we are aware in New Mexico that that's the way the trend is going and we would just like to express ourselves even if its less when the final thing comes down, but we are concerned.

Senator SCHMITT. Well, I don't want to get into an argument. The problem has been, at least in New Mexico; we haven't used the money that's been allocated so even when the budget was high. We turned back $9 million total in 2 years for Farmers Home programs. In addition, there have been appropriations relative to .oan guarantee programs and nobody has used them; not only in New Mexico, but in the country as a whole.

Mr. LARA. In the entire country.

Senator SCHMITT. What we're trying to find out is why have the programs with the money it has had been ineffective and particularly ineffective in New Mexico.

Mr. LARA. As you know, Senator, one of the ways that Farmers Home allocates money to the States is really based on previous usage of the money. Unfortunately, we started off a few years ago not utilizing all the money. Consequently when the moneys were again distributed to the States, then we were locked into a certain amount.

Senator SCHMITT. It's just the opposite; we have been getting the money and we turned it back; that's the problem, $9 million.

Mr. LARA. In the State office, the last couple of years, it hasn't been attractive as it appears.

Senator SCHMITT. Well, it's been drastic; it's been $9 million, and other States have been using our money because other States have programs that are much more efficient than ours. They're not where they ought to be probably but they're much more efficient than ours.

Mr. LARA. This last year, I think we did bad, I admit that, There's been a couple of years——

Senator SCHMITT. No, it's been for 10 years. The record for Farmers Home for 10 years has been a shambles in New Mexico, relative to what it should be and relative to the need, and the people who are most in need are not being served. That's the whole purpose for this hearing and the examination that the Banking Committee and the Rural Housing Subcommittee are undertaking. Why hasn't this program worked?

Mr. LARA. Well, I'm just talking about the housing program as such. Mr. Hudson, correct me if I'm wrong, but weren't there only about three section 502's that were turned back last year?

Senator SCHMITT. Well, Mr. Hudson testified yesterday, and let's proceed.

Mr. LARA. At any rate, just establishing the need for the continuation of the programs in the State of New Mexico that we do have

50 percent of the rural housing units according to the 1970 census—we do not have the 1980 census—in need of repair, considered substandard.

UNSANITARY HOUSING CONDITIONS

I would just like to also discuss the effects of unsanitary housing conditions on our people here. Chronic, long-term health problems, exposure to cold weather, the high risk of death, injury, and loss of belongings from fires, contamination of food, bites from vermin-carrying animals and insects, poor lighting, the time and energy required to carry and boil water, the extra hardships of cleaning a house without running water, the anger, the despair, the low respect that comes from such an environment has been visibly evident to us.

Under these circumstances, it is an unusual child who is motivated to do well and stay in school, to develop healthy social skills and marketable job skills. It is an unusual child who is able to get and hold a job, to take pride in home and family, and to be a contributing member of the community.

Other effects of substandard housing in our communities are loss of tax revenues, disincentives for new business and industry, a drain on community resources and a diminishing of community pride and spirit.

We, in New Mexico, have appreciated the services of Farmers Home Administration. I think we're heading in the right direction in working in both States, local communities, and State offices, together to improve some of the problems we've had in the past.

Senator SCHMITT. I think you're right. I think that Hudson and others are dedicated to improving the situation and I agree with the summary of the problems that are faced in rural New Mexico with respect to housing.

The difficulty we have, at least in our preliminary study, is that the people who need the housing the most are not receiving the service, and again, it's the people at the upper end of the income level, even though they're eligible, who have received most of the services; that's what we're trying to find out, how in the world can we serve a broader spectrum of the population of New Mexico who are subjected to what you've just outlined in page 5 of your testimony

Any comments that you have on that to help us will be much appreciated.

Mr. LARA. I'd like to continue, Mr. Chairman.

Senator SCHMITT. Please do.

Mr. LARA. If home ownership is no longer going to be possible for our citizens, I think we should consider leaving some moneys to develop rural rental projects. Perhaps it may not be possible to continue homeownership or rental interest credit down to 1 percent as we have it now. Consider, however, subsidies which would allow 5 percent interest credit provisions. I have been informed that since 1937 when they were first beginning to appropriate subsidy moneys there's been a total of $37 billion expended in the country.

CUTTING BACK SUBSIDIES

The CBO has come up with figures that demonstrate that in 1982 alone, it is projected that middle- and upper-income homeowners will be subsidized to the tune of $36 billion through tax deductions on mortgage interests. Mr. Chairman, I just want to comment that perhaps this is one area that we should consider in terms of cutting back subsidies.

I personally appreciate my subsidy, being a homeowner and being middle income, but that is a lot of money in one particular year that perhaps we could use to serve a very low income that you are describing.

I'd just like to discuss the Farmers Home program section 502 just for a little bit. Again, the proposed budget which is subject to change obviously, allows for 20,000 units nationwide. OK, we have a $22 million program in New Mexico. I think we can use a lot more and with our changes in the administration, we would do a lot better.

This particular interest credit program in some studies has shown that people who are receiving credit, move out of that within 5 to 7 years due to upward economic mobility.

I'm further advised that a spot check by Farmers Home office showed that the delinquency rate of a nonsubsidized unit was higher than that of one that was subsidized. Also, as most of us here are aware, the homeownership program has what is called recapture provision. This simply means that upon the sale of the section 502 program, he repays the Federal Government for the assistance that he received. I don't disagree that subsidies are expensive over a longer term. Personally, I wouldn't mind seeing homeownership grants made to various people, but again let's be fair and across the board when we're cutting back; make sure that all income levels are included.

One of the programs that we use here, as you're probably aware is the self-help housing program. As you know, neither the Farmers Home nor the proposed budget request any moneys for the section 523 self-help housing. I'd like to encourage that you help us in getting, restoring some of those moneys.

The section 515 program, I think, has also been used in the State and it certainly can be improved upon, but I think that we're using it satisfactorily. We're improving on our applications ourselves and then again we're working very closely with Farmers Home on that.

Let me just summarize my comments, Mr. Chairman. We have experienced problems with the Farmers Home office in New Mexico. In some counties we have more problems than in others.

I think the structure that allows for a State district, and county is a very good one and brings it closer to the people. As you know dealing with subsidized housing programs such as HUD, we must go through Dallas, Tex., to get any assistance there.

I appreciate the effort here we're doing to try to improve the existing structure. You know that we're 38th in per capita income and some 90 percent of our folks cannot afford housing at conventional lending rates, so we do agree that Farmers Home section 502 should be kept and maybe increased.

Thank you very much, Mr. Chairman.

Senator SCHMITT. Thank you, Mr. Lara. Your entire testimony will be included in the record.

[Whereupon, the prepared testimony of Noe Lara was admitted and is as follows:]

TESTIMONY OF

THE STATE HOUSING AUTHORITY/STATE PLANNING DIVISION

INTRODUCTION

Mr. Chairman, members of the Committee, ladies and gentlemen. My name is Noe Lara and I am the Director of the New Mexico State Housing Authority (SHA). First of all, I would like to thank the Senate Subcommittee on Rural Housing and Development for the opportunity to comment at this hearing.

The SHA was created in 1975 under the State Planning Division of the Department of Finance and Administration. The overall SHA goal is to provide State assistance in order to improve the housing conditions of New Mexican families, especially those that fall within the low and moderate income level.

Activities which the Authority has undertaken fall within five categories:

1. TECHNICAL ASSISTANCE

   The goal continues to be to strengthen existing delivery mechanisms and to create new ones in order to fill an unmet housing need.

2. TRAINING

   Our goal has been to develop policy decision capabilities as well as to improve the technical potential of housing sponsors.

3. ADVOCACY

   The goal is simply to ensure that the State of New Mexico get its fair share of federal housing dollars and that New Mexico's unique multicultural and rural character is taken into consideration when the federal government develops housing policies. Also we attempt to provide forums whereby our State Legislators and others in decision-making positions can be informed of current housing problems and the other issues confronting our State.

4. INFORMATION DISSEMINATION

The SHA attempts to provide up-to-date information on the status of existing federal programs and to elaborate on State and Federal housing issues.

5. PROGRAM ADMINISTRATION

We have applied for and received both federal and State Housing funds. Through our existing structure, the State Housing Authority has and will continue to work with the New Mexico Congressional delegation with our State Legislature and with the numerous independent advocacy groups such as the New Mexico Hispanic Housing Coalition to promote sufficient and appropriate types of housing units for New Mexico.

ADVANTAGES AND/OR PROBLEMS CAUSED BY FmHA REGULATIONS

The letter from Senator Schmitt inviting me to testify asked that six specific items relating to the advantages and/or problems caused by FmHA rules and procedures be addressed. I would just like to comment that the issues raised perhaps had some validity some three years ago when FmHA had program monies or prospects for housing monies. They don't seem as relevant in light of severe proposed cuts in the Fiscal 1983 budget.

Yes, New Mexico users of FmHA housing monies have encountered application processing problems. Yes, developers have run into problems in not receiving in a timely fashion, requested drawn-down funds. We would like to see FmHA personnel better trained in the administration of programs such as the Section 504 loan and grant program, in the Section 523 Self-help housing programs and in the Section 515 Rural Rental program. Granted, some sensitivity on the part of some county supervisors and State officials would enhance FmHA's image and perhaps result in more efficient processing. No one can argue the fact that if the St. Louis Finance Office were in Albuquerque or Santa Fe, all sponsors of housing projects would be pleased.

Regarding the question of whether the current structure of FmHA is sufficient, let me comment that there is nothing wrong with the existing structure.

The State, District and County office system provides for more direct contact with the intended users of FmHA programs. I am told by the Housing Assistance Council that FmHA homeownership programs, compared to HUD programs, have lower cost per home mortgage, lower rates of foreclosure, and experience lower losses to the government. Compared to a private mortgage company, FmHA housing programs servicing expense was found to be twenty times higher, but FmHA made thirty-nine times as many loans.

I am certain that this hearing will be used to strengthen the existing FmHA and HUD housing delivery system and not as an attempt to point out those individuals within the Civil Service system that have not shown an eagerness to carry out their jobs in the most professional manner.

RURAL HOUSING AND THE FmHA

Please allow me to point out to you what I feel is the real issue that we should be addressing today and this is whether Congress is going to allow the Administration to abandon the committments made in 1937 and reaffirmed in 1949 to provide decent, safe and sanitary dwellings for all Americans. The measure of our society, according to the late Senator Hubert Humphrey, is how we as a Nation serve the housing needs of those deprived of decent housing. He stated then in 1977 that he was afraid that we had not nearly measured up. I wonder how Senator Humphrey would feel now if he were to be alive today. The December 7 Congression Record, which included OMB's Budget proposal for FmHA, shocked many of us. Other reports on the proposed budget confirm an administrative move to drastically cut back funding in rural areas.

The following are some preliminary figures which OMB is proposing without too much of a fight from the National FmHA Office.

1. Section 502 low-income homeownership loans - $900 million - Congress appropriated $2.3 billion for FY '82
2. Section 515 rural rental loans - $200 million - Congress appropriated $940 million for FY '82
3. Rental Assistance - $185 million - but to provide for the extension of expiring subsidy contracts. Congress had appropriated $398 for FY '82
4. As the USDA proposed, OMB's budget includes no funding for (a) rural planning grants (b) mutual self-help housing grants (c) SELF-HELP housing site loans (d) rural counseling grants

Allow me to paint a picture of rural America. In cities one home in 62 is substandard, but in rural areas one in 13 is substandard, thus nationwide the incidence of substandard housing is almost five times greater for rural than for metropolitan areas. Moreover, and according to GAO, 75% of the substandard housing in non-metro areas is found in places with populations of 2,500 or less. A dramatic finding was that only three percent of the combined HUD and FmHA resources are directed at places with a population of 2,500 or less. As Senator Schmitt can attest to, we have many of those such places in New Mexico. In New Mexico while the percentage of all units considered substandard is 21 percent, 5[illegible] percent of the rural housing units are considered substandard.

The effects of squalid, unsanitary, unsafe housing on those who inhabit them should be self-evident to a civilized society such as the United States.

Chronic, long-term health problems, exposure to cold weather, the high risk of death, injury and loss of belongings from fires, contamination of food, bites from rats and other vermin-carrying animals and insects, poor lighting, the time and energy required to carry and boil water, the extra hardships of cleaning a house without running water, the anger, despair and low self-respect that comes from such an environment are visibly evident.

Under these circumstances, it is an unusual child who is motivated to do well and stay in school, to develop healthy social skills and marketable job skills. It is an unusual adult who is able to get and hold a job, to take pride in home and family and to be a contributing member of the community.

Other effects of these substandard housing on the community are loss of tax revenues, disincentives to new business and industry, a drain on community resources and a diminishing of community pride and spirit.

The resources provided to rural America and especially to rural New Mexico by the FmHA have made a significant contribution.

Please don't misunderstand me, I am not calling for a move that could be interpreted as unpatriotic with an aim at not supporting the President in his effort to bring about a balanced budget. I simply would like to point out that some of the programs have worked well. There now exists even better opportunities for a better administration of FmHA programs with leadership such as that provided by FmHA State Director Jim Hudson. New Mexico is willing to share with the rest of America in some cutbacks, but please leave us a few programs to work with. If homeownership is no longer going to be possible for our citizens, leave us monies to develop rural rental projects. Perhaps it may not be possible to continue homeownership and rental interest credit down to one percent. Consider, however, subsidies which would allow five percent interest credit provisions. While we are on the subject of interest credits and subsidies, I have been informed that from 1937 when Congress first began appropriating subsidy monies for housing, to date, Congress has approved the spending of $37 billion. The CBO has come up with figures that demonstrate that in 1982 alone, it is projected that middle and upper income homeowners will be subsidized to the tune of $36 billion through tax deductions on mortgage interests. As the distinguished Senators can attest to today, the last time a vote came up in Congress to eliminate these IRS-related subsidy there was not one single member of the Senate to vote in the affirmative.

Let us discuss just one particular FmHA housing program the Section 502 homeownership program. First of all let me say that in 1981 there were monies to construct units that would receive interest credit. The proposed OMB Budget for FY 83 is to allow the construction of only 20,000 units nationwide. This is a reduction of 59,538 units. Keep in mind that in New Mexico this program is a $22 million program, so we can see the share that New Mexico will get if the proposal remains undisputed by Congress. Most of the families that receive interest credit, I am told, are phased out of the interest credit program after from 5-7 years due to the families upward economic mobility. I am further advised that a spot check by the FmHA Finance Office showed that the delinquency rate of a non-subsidized unit was higher than that of one that was subsidized. Also, as most of us here are aware of, the homeownership program has what is called a subsidy recapture provision. This simply means that upon the sale of a Section 502 subsidized unit by the owner, he repays the federal government for the assistance provided him through the interest credit. I don't disagree that subsidies are expensive over the longer term. I agree with some who claim that it would be cheaper to provide homeownership grants to the poor. I would not be opposed to this if subsidy programs are to be cut, however, let us be fair and cut across the baord and not penalize the poor acknowledging the negative ramifications of substandard housing.

Another program that we are trying to promote in New Mexico is the SELF-HELP Housing Program. The self-help concept provides the opportunities for low income families to make a contribution toward the cost of their unit by participating in the construction of the unit. Up to 20 percent of the cost can be saved through individual participation. I believe that with the continuation of FmHA 502 mortgage program and the Section 523 organizational technical assistance programs, SELF-HELP can be the answer to producing less expensive units plus reviving the frontier community pride and spirit of families working together for a mutual interest. The Section 515 rural rental program has also been used to finance cooperative housing projects. This form of homeownership could move to be one way of maintaining the Congressional committment to housing our citizens while keeping construction costs down significantly.

People in New Mexico are hard-working, creative and thrifty. However few and far between are those who can perform miracles. We will loyally join with the rest of the country in supporting our President in his endeavors to bring about a balanced budget. However, when absured proposals for cuts are made which may have damaging results to our children, to our elderly and to our rural folks, we will not take such actions sitting down. I am sure that our Congressional delegation will support the efforts of the rural poor and the advocates of the rural poor in providing decent and safe housing.

SUMMARY

Please allow me to summarize my comments. Yes, we have experienced some problems with the FmHA Offices in New Mexico. In some counties some problems are more severe than others. FmHA, however, still has the best housing delivery structure in the federal government.

I appreciate the effort here today to strengthen that existing structure.

New Mexico, especially rural New Mexico, has a tremendous need for the FmHA housing services. We rank 38th in the Nation in per capita income and some 90 percent of our families cannot afford to purchase a house at conventional interest rates. A cutback in funds in some FmHA programs could have a dangerous effect on some of the users of same programs.

I agree with New Jersey Senator Harrison Williams that OMB's plan outlines in the December 7 Congressional Record is "near total abandonment of one of the Nation's most basic and long held committments, that of decent, affordable and suitable living environments for our people."

We in New Mexico are keenly aware of our rural nature. There have been some steps undertaken by Governor King to ensure proper planning for our rural communities by the development of the State Housing Advisory Committee and the Governor's Rural Development Council.

The Committee, as well as the Council, however, need incentives that can only be provided by the Federal Government. Our committment to you is that we will do everything possible to coordinate our ideas and programs with those of our federal agencies in order to bring about better housing to our New Mexican citizens and to do so in an efficient manner.

Senator SCHMITT. Now, Mr. Trujillo, director of Taos County Housing Authority. Would you proceed?

STATEMENT OF HORACIO TRUJILLO, DIRECTOR, TAOS COUNTY HOUSING AUTHORITY

Mr. TRUJILLO. Senator, I'm here as director of Taos County Housing Authority, Public Housing Agency. I'm also a member of the Governor's housing advisory committee.

My involvement for the last 5 years has been in the Federal Housing bureaucracy. We work closely with both Farmers Home and in developing housing programs.

I appreciate the subcommittee's invitation to discuss the Federal provisional housing in rural areas and to discuss the development of more effective additional housing programs.

The grim reality is that high interest rates, inflation, and the escalating cost of land have dealt some cruel blows to the housing industry. The brunch of this has long been absorbed by authority.

(Spanish) can appropriately be paraphrased as follows: (Spanish) The board rules because one is next to impossible to purchase or to repair their homes. Two, there are primary target budget cuts. Three, they contribute the most numbers, 8.4 percent national unemployment rate. Four, they are denied tax cuts while the wealthy few reap the benefits and generous tax cuts and land expenditures.

SOCIOECONOMIC DATA

Senator, the next few pages of my testimony deal with socioeconomic data of Taos County. It will suffice that I should read only a portion of it.

In May of 1979, the U.S. Department of Agriculture published a report on the socioeconomic status of all U.S. counties. The following northern New Mexico counties were ranked as follows: out of 3,097 U.S. counties, Taos County was ranked 2,670th. Mora ranked 2,088th which is ninth from the bottom and San Juan which was second in the Nation.

In 1979, 2,179 persons were receiving various types of financial assistance in Taos County. In 1980–81, 655 families received financial assistance. Two thousand two hundred and fifty families received food stamps for approximately 39 percent of the total county population. Furthermore, 75 percent of the student body in the Taos school system qualified for free or reduced lunches.

Now, that this Senator has been apprised of the socioeconomic conditions in Taos County; these are typical of all northern New Mexico.

Senator SCHMITT. Actually they're a little better than some, and areas of San Miguel and Rio Arriba and northern Santa Fe and Sandoval Counties are worse off than Taos.

Mr. TRUJILLO. This is from, according to a USDA report.

I would address the other questions by the Senator; one, does the current cost system cause delays? Yes, it does; that is to say that processing systems, either Federal, State, local, or community anc natural systems contribute to delay.

An example of the delay are the lower public income housin program projects in Taos County and Rio Arriba County. All thes projects received program reservation in the early 1970's as a result of operation breakthrough. Today, some of these needs have not been filled.

When analyzing the major causes and assumptions as to why they are deficient, one must look at the variables that are difficult to change or influence; they are climate, land and water. The climate limits the housing design. Harsh climate in other parts of the country also limit this as in New Mexico. These conditions provide more reason for the rapid migration into the area which in turn contributes to the creation of a speculative real estate market. It is common throught to correlate the price of an acre of land to the severity of moves from Chicago or the number of floods in one section of the country.

The terrain with its high mountain areas and somewhat arid flatland is already an overburden to green areas.

Since only 38 percent of the land is privately owned, this further limits the amount of land available for home construction. This is due to a history of land grant problems. Many landowners do not have clear title to their land. Obtaining clear title is an expensive process that few can afford without an increased financial burden. This further limits the amount of affordable land.

All the water rights in New Mexico could adjudicate by State engineering. It is necessary that the State of New Mexico soon realize the seriousness of this problem. The amount of water available to a piece of land is not enough to supply a high density development. Municipalities and county community water systems are reached into the legal populus. This again, contributes to the limited affordable building sites.

An example is provided by comparing the number of section 502 loans made in Taos County in the fiscal year 1981; 23 for a total of $704,000 and the number made so far this fiscal year, zero.

The major obstacle is the lack of suitable, affordable building sites. There are also variables that can be changed or influenced and these will be dealt with as the other questions are answered.

Question No. 2: Senator, to my knowledge Farmers Home policy has been inconsistent throughout the State. The widespread discrepancy is mostly the implementation of that policy. Until recently, clearcut guidelines to determine what is modest in design, size, and cost contributes to the discrepancy.

Another discrepancy is requiring the individual remove these restrictions that would assure tenants of land and the home be by the family. This, when compared to the influence of the sellers of land to restrictive deed covenants such as, saying that only house can be placed per acre.

Full cooperation and communication between Farmers Home and its clients have also contributed in some cases. An example is a female head of household applicant expressing feelings of being harrassed by Farmers Home employees. This problem, however, can easily be solved by interest on both the parts of the consumer and supplier.

The continuation of the supervisory system program will provide occasional opportunities for the consumer. This program involves counseling, Outreach and housing ability. The purchasing of a house to the consumer constitutes his or her largest single investment of a lifetime and an informed buyer reduces the risk of a loan. Counseling is like preventive medicine. It will insure a line of communication between the lender and borrower which will help reach a level of solution.

The TSA program in Taos County has contributed to the reduction of the delinquency rate of monthly home borrowers from 28.3 percent in October to 23.9 percent in December.

The Outreach in housing ability will also improve through cooperation and communication. This program is scheduled for elimination.

Question No 3: Does the discretion result in desirability or arbitrary decisions? It is hoped that the county supervisors, and district and State directors, will allow the discretion to be flexible to traditional and socioeconomic factors in the area. While adobe construction might not be appropriate in Indiana, it is a way of life in northern New Mexico. The history of housing in Taos County is a community venture; that is to say, the local residents helped each other to start the low-cost homes and used natural material.

Flexibility in this area and the continuation of Farmers Home section 502 mortgage money and section 523 technical assistance program are essential elements in providing effective aid to rural housing developments. The funding of section 502 and section 523 programs is currently in jeopardy.

Question No 4: Does the wide range of tax required of Farmers Home result in a lack of knowledge in some subject areas? A lack of knowledge results in any individual and/or organization responsible for a wide range of tax. This includes community based organizations, local governments, and Farmers Home officials.

Housing and technical assistance and housing delivery is complex. Farmers Home officials require knowledge of traditional and socioeconomic conditions of the area. They also require knowledge and trade in the roles as advisers to the grantees and improved skills as grant managers.

Community-based organizations and local governments require program knowledge for planning, implementing, and evaluating housing programs. It is essential that Farmers Home continue support organizations providing training and technical assistance.

Question No. 5: Should there be specific underwriting and other standards applied on a statewide basis to avoid arbitrary decisions and to speed processing? Any specific underwriting and other standards that apply must be developed by representatives of Federal and State agencies, local government, private sector, and the community. These standards should promote Federal and local administration cooperation and should promote cooperation between local community agencies in developing new hope of homeownership and neighborhood pride on the part of the buyer.

The application of status must be resisted. An example of that is the administration review of the section 502 program. From the administration's viewpoint, there are problems in the section 502 program and they propose to make changes in section 502 regulations which will limit its assistance.

On the other hand, there are no proposals to limit the amount of housing tax subsidies to homeowners such as deduction of mortgage payment and deduction of property taxes and to rural capital gains on home sales.

Question No. 6: Is the current structure of Farmers Home sufficient? Yes, Senator, it is. Local rural housing belong to the worst housed group in the country. It is the responsibility of both the public and private sectors to remedy the shambles situation, therefore, I urge this committee to support the continued funding of all Farmers Home housing programs.

If these programs are not adequately funded to provide sufficient and affordable housing opportunities for the rural and poor, then we will be faced with yet another problem: how to dispose of the rust scrap metal pieces of mobile homes, today's only affordable housing.

I am confident by utilizing these self-help methods of construction, appropriate technology, and traditional building materials, it is possible to construct an energy-efficient home at a cost comparable to that of a purchase price of a mobile home.

Thank you, Senator.

Senator Schmitt. Thank you, Mr. Trujillo. Before we go to the next person on the list; I'm a little bit surprised at your statement that the current structure of Farmers Home is sufficient. You said yes. Everything that we have had here indicates that New Mexico, the administration, again, looking over several years not necessarily commenting on the current situation and what's being tried there, but relative to population, the 2,840 initial section 502 loans made by Farmers Home in New Mexico between fiscal year 1977 and through 1980 was less than half the average of three States, Colorado, Arizona, and Utah, nearby and if its measured against households lacking plumbing, it's even further behind since New Mexico's 1980 census figure shows that 4.8 percent of the year-round units in New Mexico without plumbing, compared to the national average of 2.7 and averages in the nearby States of Utah, 1.1; Nevada, 1.4; Colorado, 1.8; and Arizona 2.6, so I would just put my own comment on the record at this point; I really don't think I can go along with you that the Farmers Home is sufficient in New Mexico.

It hasn't been, now whether it will be the next year or so under Hudson's leadership, we'll wait and see. We certainly hope it will be and I think he's taken important steps, but there may be just some inherent difficulties in providing an efficient Farmers Home activity here in New Mexico.

Mr. Trujillo. I agree with you, Senator, that if we look at the future also and the future funding for the technical supervisory system program, we'll see a lot of housing activity in Taos County and we do have that program and we are increasing that outreach and this is where the substandard housing is.

Senator Schmitt: Do you have section 8 housing?

Mr. Trujillo. Yes, we do.

Senator Schmitt. How does that work?

Mr. Trujillo. The section 8 existing program is full.

Senator Schmitt. But how does the payment rate, delinquency rate—does the existing program seem to be efficient?

RENTALS

Mr. Trujillo. It's one way of providing rental subsidies to lower income families. If we look at the rental market, particularly in Taos, the housing manager newsletter where they state that Pennsylvania was not only the—or Philadelphia was not only a city of brotherly love, but it was also the city of brotherly rents because it had the lowest rental average in the cities of the United States.

The highest averages were out of the counties in Colorado, where Aspen and Vail are located. Taos also has a similar industry, skiing industry, as does Aspen and Vail, and we've seen over the past 4 years, rents in Taos skyrocket.

The average rent in Taos right now is for—for a suitable two-bedroom unit is upward of $250, and if we look at the community, the jobs in the community that it actually provides, there's a lot of people working, but they're wroking in tourist industry related jobs at minimum wage. They could not afford to pay $250 or $300 a month rent. Consequently, the section 8 existing program is assisting us.

Senator SCHMITT. Do you know what the average rental cost in the section 8 housing, for the new section 8 housing in Taos County is?

Mr. TRUJILLO. Our average, our last report that was sent in was not the average cost of rental housing but our average rental cost is $179 per family.

Senator SCHMMITT. Well, do you know the fair market rental value of those units?

Mr. TRUJILLO. The fair market rental for a two-bedroom is $241, which is—that is adequate for looking at places like Penasco, but when we're actually trying to find rental units within the TAOS Valley, it's very difficult.

Senator SCHMITT. We'll come back, I hope, with a few more questions. Mr. Lockwood, would you proceed with your testimony?

STATEMENT OF ROBERT LOCKWOOD, DEVELOPER, SANTA FE, N. MEX.

Mr. LOCKWOOD. Senator, members of the committee, in response for your request for testimony concerning development of rural housing in New Mexico, I'd like to make the following comments.

First, as background for my testimony, I have developed and built over 2,600 units——

Senator SCHMITT. Could you pull the microphone a little bit closer; thank you.

Mr. LOCKWOOD. Units of federally financed housing units in New Mexico, including Operation Breakthrough in the northern six counties with as few as 8 units in Maxwell, to 121 units in Santa Fe.

It is my opinion that the Federal programs providing subsidized housing, HUD, FHA, and Farmers Home, have done a reasonably good job over the last 15 years of providing housing for the low-income families and elderly and distributing these units over the State when wanted by local communities; however, the production has decreased in the last 2 years.

MAJOR PROBLEMS IN HOUSING DEVELOPMENT

As a developer, the major problems in developing housing in New Mexico are as follows:

I think these are probably priority as they are listed.

One, the lack of any or adequate sewer and water systems which are almost essential for Federal financed housing.

Two, the difficulty of financing projects in rural areas where any private funds are required even if only interim financing.

Three, the resistance of local communities and neighborhoods to public housing.

Four, the lack of acceptable building sites that can be purchased at Government appraised value or purchased at all for subsidized housing.

Five, the processing time of a project which includes not only the Federal intake, but also State and county and city requirements.

Six, projects in New Mexico are small, 50 units or less, and getting smaller, 5 units or less; therefore, more difficult to develop.

Seven, unreasonable design requirements by owners, PHA's and local governing bodies.

HUD has made an honest effort to service New Mexico but most of the programs are just not workable under present economic conditions and the rules and regulations imposed upon them.

Funding is not adequate for the State's needs. The return to Albuquerque of a full service office would greatly assist housing development in New Mexico.

I personally have been unable to get any cooperation from Farmers Home in developing New Mexico housing; all efforts have received negative results. It would seem the out-of-State developer has a much better opportunity to work with this agency.

In conclusion, the need for assisted housing continues to grow in New Mexico with long waiting lists for existing units in most communities.

This housing has become more difficult to produce. I do not have a simple answer to solve the problem, but it will require cooperation, compromise, and input of Federal and State agencies, local governments and the developer-builder to obtain workable programs.

As the private sector must produce the housing under any program, there must be provisions for a reasonable return for efforts and risks involved.

I'd like to thank you for the opportunity of addressing this committee. I will be happy to answer questions or clarify the comments made.

WATER AND SEWER PROBLEMS

Senator Schmitt. Thank you, Mr. Lockwood. Are the problems that you have encountered relative to, number one of your list and sewer and water problems, problems of over regulation, too stringent of standards or are they——

Mr. Lockwood. Lack of.

Senator Schmitt. Total?

Mr. Lockwood. Total lack of or if there is assistance, it's not adequate for additional units to be added. There is resistance in the community to accept and change the existing units. For instance, the local water system may have a dollar amount and if there's changes made, there is danger of changing monthly rates but in talking about rural housing in New Mexico, there's a complete lack of suitable water and sewer systems to hook up any substantial amount of housing.

Senator SCHMITT. Do the Farmers Home, regulations, standards, allow enough flexibility to deal with a local water situation or sewer situation where more than one option might be available and some at lower cost?

Mr. LOCKWOOD. We have found projects where community water systems and sewer systems are not available, we find this gives us much problem.

HUD, I believe you are going to find now in rural housing is going to require a water system and a community water system they will accept a project designed sewer system, but they prefer a community disposal system. You go into these communities that have these facilities but they are not adequate to take on another 50 housing units or 25 housing units.

It's a big problem to find a site and area that you have utilities when you talk about rural housing in New Mexico, whether its north or south or wherever. It took us 4 year to find three sites to develop housing for Mr. Trujillo in Taos County that was suitable to HUD and with a reasonable value that we could devleop; 4 years.

Senator SCHMITT. Now, are you able to use project water and sewer systems or are you generally having to try to tie into the local communities?

Mr. LOCKWOOD. We had, but it's very difficult really to do a good job; you need community water and sewer systems.

Senator SCHMITT. Is that an inherent problem in New Mexico because in other parts of the project, water systems seem to be working out pretty well.

Mr. LOCKWOOD. I think it's probably more of a difficult problem here in New Mexico than in some other areas.

You'll find a community water system that has maybe 30 to 60 families hooked on to the system and you go in and want to put in a 30-unit development and those people don't have an adequate system probably right now and they don't want to hook on another 30 units; then maybe all of them may be short of water.

Senator SCHMITT. Does Davis-Bacon give any significant difficulties in New Mexico?

Mr. LOCKWOOD. I don't find that a great problem.

Senator SCHMITT. Do you have any estimate of the Davis-Bacon, if any, over and above if you took the local wage rates?

Mr. LOCKWOOD. I would say that some builders, some developers would maybe be abe to develop about 5 percent less without Davis-Bacon.

Senator SCHMITT. Five percent more without Davis-Bacon?

Mr. LOCKWOOD. Less; some builders, they did not have Davis-Bacon.

Senator SCHMITT. Oh, I see. I'm sorry.

Mr. LOCKWOOD. I don't feel that's a real problem. It would be helpful to some builders and some developers if it were not a requirement, but it's not one of the major problems in developing housing in my mind.

Senator SCHMITT. That's interesting because I've had—in talking with Indian housing authorities, they come up with a much higher cost increase.

Mr. LOCKWOOD. It is a problem in Indian housing. The rates are considerably higher and it is a problem in Indian housing, there's no question there.

Senator SCHMITT. Mr. Trujillo, given the tremendous poverty of the rural counties such as portions of Taos County, shouldn't we be developing programs that will help more people escape some of this poverty rather than to help a few people a great deal as the Farmers Home program is intended to do?

Mr. TRUJILLO. Sure, I agree with you, Senator. Obviously the more people you help, the better the program is.

Senator SCHMITT. But if you assume you're always going to have a limited number dollars, and we've always had inadequate dollars no matter who has been in charge; shouldn't we be trying to figure out ways in which a broader base can be serviced by those dollars rather than continuing to build houses that are really only available to the higher income portion of the eligible population?

Mr. TRUJILLO. I agree with you and I'd appreciate the opportunity to be able to sit down and try to develop some of those proposals as to how to help more folks.

Senator SCHMITT. Well, to some degree concentration on the rehabilitation programs—maybe a higher priority on rehabilitation and a lower priority for new construction.

Mr. TRUJILLO. Both are needed, Senator, and there is a great need for rehabilitation particularly in the smaller communities. There is a need to preserve the housing style that has been there for a long time. There are houses in New Mexico that have been standing for 100 years.

Senator SCHMITT. Exactly; we had arguments yesterday that it was not as efficient to invest in further preservation of old housing as it was to build new housing. As you're implying, as I think you are, the old houses are going to last a lot longer than the houses we've been building under the Federal program, I would agree with that particularly if we provide some assistance to rehabilitation.

Mr. TRUJILLO. Also in the construction, I happen to believe that if we build using indigenous materials so they are put together to last, we start doing that through flagstone floors and things like that. This material is available in our backyards. However, today there happens to be very, very rich and very, very poor, and I don't believe that they are able to live in that kind of a home.

Senator SCHMITT. The Farmers Home standards discriminate against those kinds of materials?

Mr. TRUJILLO. Not as such. The problems with Farmers Home and with HUD is that they are very labor intensive. Consequently, if a contractor were to go in, the costs would be more than putting up an A-frame, however, it does, not only the construction, does lend itself to self-help construction.

Senator SCHMITT. As you know, the eligibility incomes have been increased form $11,200 to $13,400 per year in Taos County. Is that a reasonable increase at this time and what effect does it have?

Mr. TRUJILLO. It appears reasonable I don't know if we're reaching all those folks who earn under $11,200 and now you're opening up an approach to another statement about that. If it means getting more money up there and not sending money back, I'm all for it, but it's still the people at the lower end that can't——

Senator SCHMITT. We weren't reaching the people at the lower end with $11,000 so we're not going to be reaching them with $13,000.

Mr. TRUJILLO. Well, we have reached them with self-help construction if we could find suitable building sites. It's essential that somehow the section 523, section 524 site loan program be funded because in northern New Mexico, its difficult to find a place with water and sewer, so we need to find suitable sites.

There still haven't been any section 502 loans issued this year in Taos County because, again, there aren't any suitable housing sites and there's a speculative real estate market; $10,000, $15,000 an acre and then there's restrictive codes on that, you can't build four or five houses and then you have to do a subdivision and the subdivision has to have curbs and gutters and these types of regulations, so it's an expensive process.

The only way to develop land and these types of sites is to reduce the cost of each site and then it will be affordable.

Senator SCHMITT. Yes, that's starting to come through stronger and stronger in several areas in New Mexico and one of the principal constraints, given all the other problems, you can't find the place to put the project, if you can overcome the other problems.

Gentlemen, I'm almost certain we're going to have a few questions for the record for you and so we'll get those to you as soon as we can.

We must go on to our next panel. I appreciate, again, your attention and interest. We will try to legislatively or through moral persuasion make the program work better than it has to serve a broader spectrum of people. Thank you.

[Whereupon, the prepared testimony of Robert Lockwood was admitted and is as follows:]

Bob Lockwood DEVELOPER

P.O. BOX 4307 • PHONE (505) 982-1861 • SANTA FE. N.M. 87502

January 12, 1982

Honorable Harrison Schmitt
United States Court House
112 Federal Place
Santa Fe, New Mexico 87501

Dear Senator Schmitt,

In response to your request for testimony concerning the development of Rural Housing in New Mexico I would like to make the following comments:

First, as background for my testimony, I have developed and built over 2600 units of federally financed housing units in New Mexico, including Operation Breakthrough in the northern six counties with as few as eight units in Maxwell, to one hundred twenty-one units in Santa Fe.

It is my opinion that the federal programs providing subsidized housing, HUD, FHA and FmHA, have done a reasonably good job over the last fifteen years of providing housing for the low-income Families and Elderly, and distributing these units over the state when wanted by local communities; however, the production has decreased in the last two years.

As a Developer, the major problems in developing rural housing in New Mexico are as follows:

1. The lack of any or adequate sewer and water systems which are almost essential for federally financed housing.
2. The difficulty of financing projects in rural areas where any private funds are required even if only intermin financing.
3. The resistance of local communities and neighborhoods to "public housing".
4. The lack of acceptable building sites that can be purchased at government appraised value or purchased at all for subsidized housing.
5. The processing time of a Project which includes not only the Federal red tape but also State, County and City requirements.
6. The Projects in New Mexico are small ([illegible] units or less), and [illegible] units in [illegible] difficult to develop.
7. Unreasonable design requirements by Owners, PHA's and local governing bodies.

HUD has made an honest effort to service New Mexico but most of the programs are just not workable under present economic conditions and the rules and regulations imposed upon them. Funding is not adequate for the State's needs. The return to Albuquerque of a full service office would greatly assist housing development in New Mexico.

I personally have been unable to get any cooperation from FmHA in developing New Mexico housing - all efforts have received negative results. It would seem the "out-of-state" Developer has a much better opportunity to work with this Agency.

In conclusion, the need for assisted housing continues to grow in New Mexico with long waiting lists for existing units in most communities. This housing is becoming more difficult to produce. I do not have a simple answer to solve the problem, but it will require cooperation, compromise and input of federal and state agencies, local governments and the Developer-Builders to obtain workable programs. As the private sector must produce the housing, under any program, there must be provisions for a reasonable return for efforts and risks involved.

Thank you for the opportunity of addressing this Committee. I will be happy to answer questions or clarify the comments made.

Respectfully submitted,

Bob Lockwood

Bob Lockwood

Senator SCHMITT. Our next panel consists of Jerry Wade of Wade Construction, Inc., of Farmington, Gene Corley from Belen, N. Mex., and Mike Chapman, president of Home Builders Association of New Mexico.

Gentlemen, if you would come forward and we will try to discuss specific information, get specific information on cost of regulations; difficulties builders are having in working with the Federal programs.

Jerry, if you would start off, I would appreciate it.

STATEMENT OF JERRY WADE, WADE CONSTRUCTION, INC., ACCOMPANIED BY KEN THURSTON

Mr. WADE. Thank you very much for inviting me. I would like to turn it over to Ken Thurston, the sales manager, and he's really in the day-to-day matter, and he's much more familiar with the day to day through direct contact than I am.

Senator SCHMITT. Please proceed. And your name again?

Mr. THURSTON. Ken Thurston. In response to the letter that we did receive from you in regards to the Senate subcommittee housing hearing, we were asked to basically respond to five questions.

RESPONSE TO WRITTEN QUESTIONS

No. 1; is non-Federal credit available in rural areas? We are located in the Farmington area, San Juan County.

As a whole, we presently have several banks, savings and loans and mortage companies with funds available for homes outside of Farmington, subject to lender approval of areas, utilities and resale ability.

No. 2; do Farmers Home Administration regulations add unnecessarily to the cost of housing built under their program? In review of this question, we would be able to say; yes, sometimes.

We are building homes in the county where roads are gravel and landscaping is natural and concrete drives and parking ramps are acceptable, rather than the rule, but when we are required to install paving, landscaping, concrete drives, parking ramps, curb and gutters and so forth, that adds to the cost.

Within city limits, we have basically the same problem. In Bloomfield, Aztec, cities up there, cities do not have to have paving, and therefore, again, we are required to go in and put in curb and gutter and sidewalk and so forth and have paved access to the subdivision and we are not able to do that without increasing the cost considerably.

In time we pay for it, sometimes for the waiver of it, the regulations, which is sometimes offered under the regulations at present.

No. 3; is the organizational structure of Farmers Home in New Mexico an obstacle to the speedy development of housing? Sometimes the structure is a problem in answer to the question from the following standpoints; that of the local office. We are pleased with the performance of our San Juan County. We have a very dedicated secretary to meet the working load or the caseload. Additional help would be helpful, but also in commenting on that and listening to the comments made today, it's come to our attention that if we are putting excessive requirements and so forth on our county supervisors, that we feel that a solution to that problem, one of the problems, would be to allow them, the Farmers Home Administration, the same criteria that HUD is using presently under the HOB program, the homeowner warranty, that they will guarantee the building for 10 years, that that would overcome the inspections required at the present time, all the inspections, which sometimes, because of his schedule, delays us.

If we're got to wait 2 or 3 hours in the day for the footing inspection, of course, it adds to the problem. If we're got to wait a day or so for the framing inspection, we've got a problem and it continues on down the line.

Also, in the actual initial processing of a Farmers Home loan, when an applicant goes in there, we try to eliminate a lot of the bookwork and paperwork generated in Farmers Home in that area by packaging those loans and giving a prepared application packet.

And then he takes it from there and reviews and has his interview with the client and so forth and then has to do his appraisal on the project and other various things.

Like HUD, again, we would recommend that we use independent appraisers to lighten his case load so that he can in fact do the things necessary in his wide range of responsibilities and again, going back to the private sector, and using the independent appraiser.

And the structure effecting the availability of the funds is also an area that we're having problems with. I'm not sure where the actual problem exists. I don't know whether it's coming from the national to the State or the State to the county or from the district or the county, but we have a terrible time trying to find the amount of land to acquire, how much of it to develop in a phase to meet the demand of our applicant; we would like to suggest a consideration be given for project housing to single family, so that the proper acquisition of land, improvements and the housing application could be all tied together in one package, then we could keep costs in line and make more units available for the applicants and thus trying to eliminate the carrying costs of under buying land and over buying land thus creating what was earlier mentioned, a holding costs or an increase in the improvement costs.

Senator SCHMITT. I understand that that is available now for nonprofit, but that would not be——

Mr. THURSTON. We're not in the—we're in the business now of nonprofit because of the——

Senator SCHMITT. Inadvertently; unfortunately you don't qualify.

FUNDS RETURNED

Mr. THURSTON. No. What we're trying to do there is to, in our area anyway, we're finding that we've got more applicants now than we have ever had and then in listening to the comments that have been made today, I'd like to address the remarks made as to the fact that money has been sent back from the State of New Mexico in the last 2 years.

It's my understanding that the reason why the money has been returned to the national level has never been answered to me personally either through the county, State, or national and the need for Farmers Home money, funds for the homes for low-income families has never been higher in my experience.

The building industry has never been more willing to work with the programs in trying to overcome the regulations.

The individual demand has never been higher in our area than it is now. We presently have three model homes located in downtown Farmington and on any given week, I can guarantee that we have more than—anywhere from 7 to 10 applicants coming in and asking about Farmers Home and upon preliminary qualification, they qualify and yet we're not able to hardly even meet just the beginning of the demand.

The funds is where I'd like to spend a little more time again. Why was money sent back was the first question I would send to you guys; and that is, was it lack of the demand, and I'd say no; was it a lack of the builders meeting the regulations; no. It was a problem within the Farmers Home Administration itself as best as I can see.

In July, August, and September 1981, our company made repeated efforts to find out the availability of funds for our applicants. At that time, we were told that there was no money. All the money had been spent and then on September 15, we got a phone call from the county agent and said that the State had $3 million in funds. We have until October 1 to spend it, but the problem is, we can't get any of the processing done because it takes at least 2 weeks to get the processing done by the time I send it into the State and then it takes additional time to get it into the national and get funding.

So effectively, we lost our proportional share of that and at the time we had applicants of about 26 on hand at the present time that could not be met; 26.

The thing that I would like to do, if there's anyway we can, is examine the money supply and generate it through the offices, the State or the national or whatever it takes, so that we can have a project organization to blend the demand and the financial all together to meet the demand.

If this is accomplished, then the builder-developer could go out and acquire 5 acres of land and put together the system, with water and with the sewer, with the availability of all the criteria that they could find and usually put it together in process less than what we can on an individual basis, going out, getting a lot, and trying to meet all of the demands, you know, which we are presently having to do.

SITE LOCATION PROBLEMS

Senator SCHMITT. Do you have any site locations problems as we heard in the testimony from Mr. Trujillo from Taos?

Mr. THURSTON. We do have problems there but they're not as major as his testimony reflected. We do have a problem with sewer and water also; the availability of that out in our rural areas, but in the cities themselves there is sewer and water, but as soon as you leave that city boundary or certain areas within the city, you're still not served with adequate water and sewer.

If you go in there and propose a density of more than three-fourths to an acre, a lot of times the sewer and water is not adequate and in San Juan County as a whole, there is a problem with their sewer system because like out in Northern Vista, there is no sewer which sometimes has a damaging effect.

The other question that we were asked to address was, what specific obstacles do you view in Federal programs on Indian loans; the main three problems that we have in dealing with that are——

Senator SCHMITT. I think that should have said Indian lands.

Mr. THURSTON. Oh, Indian lands, excuse me. The three major obstacles we run into is homesite leases and the time that it takes to process one of those, and again, I think we probably have as many chances to serve that program as anyone because of our proximity to the reservation but each time we try, we run into roadblocks on the homesite leases.

We're told every time we get into it that it will take at least 1 year and possibly 2, if, they always leave the big if there, if we're able to get it at all, and then the processing time is not only from the homesite lease, but then the BIA and so forth and in accordance with the BIA and the Farmers Home.

Then the other problem we have out there is again, utilities and the total sales price limitation on that because of the distance and availability of those facilities.

We have not yet been successful in producing a Farmers Home house on the reservation. We have made repeated tries, but have never been successful.

And the last question is how should Federal assistance be provided most effectively to aid rural development? I would again just make a general statement there; there's funds available for sewer and water, it's just meeting the demand.

This is one area that we have had several problems in from the standpoint of when Farmers Home or FHA or whoever grants money to be used to extend water and sewer, it's usually granted enough to go in and serve the existing area. If there's 300 homes on it, they go in there and make it to serve the 300 homes with no growth potential. Then if additional growth occurs up there, then it's back in for another review process and the time scheme thing starts all over again.

The other thing I would mention is jointly working together with FHA or HUD and Farmers Home and VA on approval of projects. The thing that has consistently boggled my mind is the fact that if you get a Farmers Home approved subdivision and then going with FHA financing, you usually have to resubmit it and do it all over again. Or if you get an FHA approval of a subdivision and go to Farmers Home, it's resubmitting process and usually the only thing that's different is maybe two or three exhibits that to me are not—you know, are not bearing and probably not important.

As a result of that though, a Farmers Home and FHA financing will take up to 2 to 3 months of additional time, carrying costs and so forth to the developer before we can bring those houses in for the people.

Then the final bill would make the amount of money known early enough from the national level to the State level to the county so that the builders, developers can inquire and develop the building within the guidelines of the most economical cost.

To give you an example of that; today, if I were to go into the Farmers Home Administration and ask how much funds are available, I would be told that, we're out of funds at present, but we think we'll get funded in January. Well, now it's January and we'll be told now, maybe we'll get funded on the 15th or maybe we'll get it on the 1st of February.

It's such an indecision type of situation and we're always left wondering how much, if it's coming, and that's the biggest negative point that I have.

In conclusion, I feel that the Federal programs, as a whole, are designed to help that individual. It is my hope that we try to keep the regulations and the controls of the program such that the individual gets through the redtape of the administration and the time-consuming processes necessary in the program and in conclusion in hopes that we can work together with the Farmers Home. I think they're willing to do such.

We've met with the State director several times and we are pleased with his statements of cooperation and trying to do what is right with the funds and so forth. We just need a little more cooperation and a little more foresight either from the national or State to our individual towns.

Senator SCHMITT. Thank you very much. Mr. Corley?

STATEMENT OF GENE CORLEY, BUILDING CONTRACTORS ASSOCIATION OF NEW MEXICO

Mr. CORLEY. Thank you for the opportunity to appear before you.

First of all, I'd like to more or less verify or correct my written statement. Question No. 1: credit for housing is not available to rural residents. I mean that on the same basis that Farmers Home money is available. There is money available to rural residents.

I'm following a very hard presentation. Our Farmington men have experienced, by his comments, the exact same experiences and procedures that statewide builders and participants in the program have experienced.

GUARANTEED MONEY FLOW CONTINUOUS

I think the main thing that would help the State in rural housing would be a continuous guaranteed flow of money. It's disheartening to those builders and myself that have begged for funds; then we sit here and hear that they have been sent back. There is a large demand all over the State in all, even very small communities, for housing that fits and works on the Farmers Home programs that are going in New Mexico.

Approximately 14 months ago out of the Socorro office I think that that housing possibly made 16,000 or 18,000 units of housing in its community.

Outside of complete repetition all over again of redtape, time, and paperwork, lack of money, I think my testimony is explanatory.

Senator SCHMITT. Thank you; your letter to us will be included in the record.

[Whereupon, the prepared testimony of Gene Corley was admitted and is as follows:]

BUILDING CONTRACTORS ASSOCIATION OF NEW MEXICO,
Albuquerque, N. Mex., January 12, 1982.

U.S. SENATE,
Committee on Banking, Housing, and Urban Affairs,
Washington, D.C.

DEAR SIRS: Please accept the following statements in response to your letter concerning the Farmers Home Administration in New Mexico. I have been building FmHA since 1960. I have completed between 100 and 150 homes under FHMA, 12 in the past year.

(1) Credit for housing is not available to rural residents. Financial institutions generally do not lend outside metropolitan areas. Farmers Home fills a need here.

(2) Farmers Home regulations are most costly in subdivision development regulations. Actual costs of construction are similar to FHA and VA programs. There are examples of requirements, especially thermal requirements, where FHMA standards exceed state requirements. I am of the opinion that state inforced codes are adequate and FHMA should follow. Each county supervisor tends to call for specific pet requirements.

(3) Speedy development of housing is impeded by some county supervisors. A particular example is a house plan that I had built for FHA and VA in Albuquerque and Alamogordo. This identical plan had been approved by the FHMA offices in Las Cruces and Ruidoso. The Artesia office checked the plan and noted 16 changes they would require. Even though housing was badly needed in Artesia, I never built there because of this.

Another example is the completion of paperwork. If a builder wants this done in an expeditious manner he must take care of it himself. Leaving this to FmHA is to risk costly delays.

(4) Attempting to build on the Indian reservations is almost impossible for the small home builder. Small home builders would be the ideal people to build on the reservation, but they cannot contend with the prevailing wage laws and bonding requirements.

(5) A particular obstacle to the home builder is the lack of guarantees of funds availability. The builder finds it difficult to build without knowing for sure that money is available for a sale. Ideally, a builder should be allowed to "buy" a commitment for money, similar to FHMA programs where the builder "buys" a commitment for 1 percent of the value. If he is unable to use the money, he loses his 1 percent, but at least he is assured of mortgage money.

Land acquistion and development loans are difficult to get without an assured permanent mortgage commitment.

I have had to wait up to 90 days for mortgage money. A 90 day wait on a $40,000 loan at 20 percent interest costs me $1800.00. A lag of 90 days in a small builders cash flow can ruin his credit, and often good credit is the most important aspect of his business.

(5) A smoothly flowing continuous supply of funds would most effectively aid rural development for the reasons stated above.

My overall impression is that the Farmers Home programs are the best housing programs operated by the federal government. I have enjoyed years of fine relationships with the Soccorro, Ruidoso, and Las Cruces offices of Farmers Home. Processing time is not unreasonable. Inspections are timely and fair, although a duplication of state or city inspections. Walk through and final inspections are handled nicely. Call backs are not a problem.

Concerning specific building requirements as dictated by FHMA. I believe nationally recognized codes are adequate for health and safety. Beyond that, the buyer would receive better value if the builder would determine requirements for a modest house in comparison to other housing in the area. For example, some form of air conditioning may be a necessity in Alamogordo, but not needed in Santa Fe. Or the builder may be able to provide more south facing windows for winter solar gain in Silver City than are absolutely required. The overall value should be judged instead of FHMA dictating specific design details.

I remain in favor of subsidized loans going to modest housing. I have always done my best to deliver a adequate and servicable home, and believe I have filled a need with the help of the Farmers Home Administration. I sincerely hope that together we may continue to offer decent housing to the people of rural New Mexico.

Sincerely,

GENE CORLEY.

Senator SCHMITT. Mike, would you provide us with your insights, please?

STATEMENT OF MIKE CHAPMAN, PRESIDENT, BUILDING CONTRACTORS ASSOCIATION OF NEW MEXICO

Mr. CHAPMAN. Yes, I'm Mike Chapman. I'm president of the Building Contractors Association of New Mexico. I'm also a builder and developer here in Santa Fe.

I personally have not built under Farmers Home or HUD programs. We've had some involvement with FHA in the past, the distant past, so I contacted builders throughout the State that had been in the program to try to come up with some information for this hearing.

In answer to specific questions which were asked in your letter addressed to me, I'd like to sort of give you the following responses.

BUILDING CODES AND REGULATIONS

The first question was which requirements concerning building codes and subdivision regulations or other regulations, which requirements should be eliminated or revised to reduce the cost and in talking to builders around the State, there appears to be quite a different interpretation of specific building codes and requirements that pertain to each area.

For example, in Raton, builders are required to install triple glazed windows while in Cloudcroft and Alamagordo double glazing of windows is satisfactory, therefore, it is a little difficult to say which specs need to be eliminated because we don't know for sure which specs apply statewide.

One plan that a builder had approved in the Las Cruces Farmers Home office was then turned down when he took the plan to Artesia; it had 16 deficiencies even though it had been approved in another area.

The biggest problem apparently has to deal more with subdivision certainly they varied between areas, so it's difficult to say what should be eliminated.

How much could be saved—I think there's a typo in my testimony here; it says sharing several thousand dollars and saving would be the correct word.

There's the possibility in just building requirement changes alone, regardless of subdivision changes, which we'll talk about in a minute, that several thousand dollars per unit could be saved with different requirements. Possibly, if the requirements were standardize, we think there could be some savings in addition.

Farmers Home apparently spends a great deal of time issuing certain specifications regarding such things as the use of the amount of glass, sliding glass doors, these sorts of requirements. I think that these types of specifications should be eliminated. Farmers Home should certainly, or any type of modest housing program should certainly minimal standards for safety and health that should be met, but how—and then of course, we're also dealing with price limitations, but how this house is actually built to conform to those things should be left up to the builders.

The builder is a much better expert in determining how to save costs in housing than is a county supervisor or State supervisor.

Changes can be made under the code, or under the program can be made without sacrificing safety. This was one of the questions that was asked, and we would recommend possibly the use of the State building code. For example, in New Mexico we build under the uniform building code; changes are made in this code yearly and they are not always adopted that quickly by the State, but for example, a framing system that was engineered and was shown to be safe over

10 years ago, in fact at this point, over 15 years ago, is just now being adopted by the UBC on a national basis, so they're very slow in improving and changing their code and they do it yearly and it appears to us from talking to builders around the State that Farmers Home is probably even a little bit slower than the UBC.

Are thermal requirements appropriate for New Mexico? I think that, again, thermal requirements seem to vary by county, some counties having different requirements than others. As I mentioned, Raton was requiring triple glazed windows while in Alamogordo or Cloudcroft they were only requiring double glazed windows.

I do think that most of these codes, and I've referred to these in our value, what is commonly used in the industry and New Mexico's building code has an energy code; we've adopted the energy section of the UBC or the RISA which requires R–11 walls and R–19 ceilings that would be 3 inches of fiberglass in the walls and 6 inches in the ceiling and double pane windows.

The determination of how that is met is a little more complex than that, but that's basically the requirements, while Farmers Home we see are apparently requiring R–19 walls and R–38 ceilings, which would be 6 inches in the walls and somewhere in the neighborhood of 10 to 12 inches in the ceiling. Again, it varies a little bit, and again, either double or triple paned windows; it seems that these probably are excessive for New Mexico and dealing with the State energy code would be a simpler way to handle it.

Does the New Mexico State Building Code provide sufficient protection? The answer, of course, in my opinion is yes. It's a code that every builder in the State is familiar with because they have been licensed and have to understand the code in order to be licensed and it's much simpler to handle it this way.

In addition we have duplicate inspections; we have inspections that are required to be made by the State building inspector then we have inspections that are required to be made by the county supervisor. Essentially, if we work by State guidelines, we might simply eliminate the inspection procedures except for maybe the final walk through by the county supervisor and just use the State inspections.

Senator SCHMITT. And eliminate Farmers Home?

Mr. CHAPMAN. Well, eliminate the requirement for the county supervisor's inspection. As long as the State building inspector is inspecting it during the various stages, it seems unnecessary for the builder also to have to get another inspection by the county supervisor. The same thing occurs in the FHA, VA programs.

EXCESSIVE PAVING REQUIREMENTS

Are the paving requirements excessive? Not only are they excessive, one builder in Cloudcroft told me that that eliminated the program in Cloudcroft because the city does not like residential streets paved and therefore they simply say, we're not going to allow you to pave, so there was never even a determination made as to whether or not the cost was prohibitive in that basis, but typically, yes, the cost of the paving requirements are excessive and primarily due to cost.

In many rural communities paving contractors and paving materials are not available, so they have to be imported from larger communities throughout the State and in rural housing, I'm not so sure that paved streets make good sense. All-weather gravel roads can be installed at much less the cost.

In Santa Fe where I'm familiar with developing costs, a direct cost savings of $2,000 a unit can be saved by going from curb and gutter paving to gravel streets. Certainly there's more upkeep costs with the gravel streets, but generally counties are better able to handle that, to handle gravel roads better than they are to take care of paved streets. Those paved streets have to be repaved or patched or whatever has to be done.

I might also like to make a comment about one project that we did try to put together and this was concerned with some Indian housing. This was a project we were involved in about 5 years ago in Tohatchi and Crown Point. There were to be approximately 113 houses built in Crown Point and 44 units in Tohatchi. They were to be financed by Farmers Home with a maximum sales price allowed in the neighborhood of $18,000; I don't remember the exact figures and I don't know exactly who had jurisdiction over this thing because the guy that created the most problems and actually killed this project was from the Department of the Interior, but we were forced to use the prevailing wage rates and we were also going to be required to pave the streets with curb and gutter. Those two items just simply eliminated the project. We were unable to meet the price requirements with that.

We were able to meet those by using local labor and by using the wage rates that were normal for those crafts in the area and we would have been able to have done the project in addition with the gravel streets. We tried to get waivers on the paved streets, on the prevailing wage rates. The prevailing wage rate is determined by Phoenix and it was even higher than the wage rates paid in Albuquerque, so the project did not get built.

The reapproval team had already informed buyers, the buyers were already being processed for the project. To my knowledge the housing has never been built, simply because of those two requirements which could not be waived.

It would seem to us that one of the problems with so many duplicate type programs, FHA, VA, Farmers Home, even though they all have a specific area that they address, it might be a simplified thing to combine somewhat, as was suggested earlier.

In addition, one of the problems—there are problems with money being available in rural areas. Many institutions are a little bit reluctant to go into rural areas because quite often those homes cannot be sold in the secondary market, they have to go warehoused in-house and one thought that came to me is the adoption of a program that would use local institutions and allow them the ability to channel funds to rural areas and by simply being willing to buy the home back, Farmers Home could set all the requirements they wanted to on what type houses those homes could be funded, but let the local institutions take care of all the processing.

Senator SCHMITT. Well, there is a guaranteed loan program; Farmers Home program is never used.

Mr. CHAPMAN. OK; well, maybe that's a point I'd like to——

Senator SCHMITT. We were told yesterday it's not a 100-percent guaranteed loan and they can't sell that on the secondary market.

Mr. CHAPMAN. Well, my suggestion would be to maybe sell it back to Farmers Home or to somebody like that, to just eliminate them entirely or somewhat eliminate them and have a quasi group that would deal in the secondary market.

Senator **Schmitt**. We had testimony yesterday from Wertheim of Southwest Mortgage Co. because his company did business in all counties. Why do you think they might be able to provide credit in rural counties where generally we had testimony that it's not available?

Mr. **Chapman**. Well, my suggestion is that if we were to say to Bob Wertheim that if you'll distribute these funds which we're providing to you and we're going to buy these mortgages back from you and we're going to allow a reasonable servicing fee and all these things, but these funds have to go to these rural areas and we'll have to, house financewise, we'll have to meet these requirements, the square footage requirements and the price requirements and things and we'll buy these back from you, and I'm sure he'd be very excited about it.

Senator **Schmitt**. Well, he has to sell his in the secondary market——

Mr. **Chapman**. Yes.

Senator **Schmitt**. He has no choice.

Mr. **Chapman**. Yes; but he could sell them back to Farmers Home.

Senator **Schmitt**. And he has made a conscious decision to take a somewhat higher cost of service on those markets; lower profit level, I presume, but still the conscious decision to serve the rural market and he apparently takes the effort to put together loans that can be processed in the secondary market.

Is he unusual in this respect?

Mr. **Chapman**. Yes.

Senator **Schmitt**. Why won't other institutions do that?

Mr. **Chapman**. Mr. Wertheim's business is basically mortgage brokerage, mortgage banker, as opposed to savings and loan and they fall under different types of regulations and requirements and their activities in the secondary market vary quite a bit.

Many S. & L.'s, especially in the small communities, are not nearly as involved and active in the secondary market even in their own areas much less getting into the rural markets.

Senator **Schmitt**. Does that conclude your testimony?

Mr. **Chapman**. Yes, sir.

[Whereupon, the prepared testimony of Mike Chapman was admitted and is as follows:]

Building Contractors Association of New Mexico,
Albuquerque, N. Mex., January 13, 1982.

U.S. Senate,
Committee on Banking, Housing and Urban Affairs,
Washington, D.C.

Dear Sirs: Please accept the following information concerning Rural Housing Programs more specifically Farmers Home Administration and HUD subsidies. The information presented is true and correct to the best of my knowledge. I personally have not built under these programs and have tried to collect information from Builders throughout the state. This testimony will deal with the specific questions asked in your letter. I will deal with FHMA separately from HUD subsidies.

Building codes and subdivision regulations specified by FHMA seem to vary from HUD subsidies and from county to county. The problem would appear to be the interpretation of the specifications by the County Supervisor. For example in Raton the builders are required to install triple glazed windows while in Cloudcroft and Alamogordo double glazing is sufficient. Plans for one builder approved in Las Cruces were found to have sixteen difficiencies when reviewed in Artesia. Because of this it is hard to say which specifications should be eliminated or changed. The biggest problem according to most builders were the subdivision regulations regarding street improvements I would like to deal with this issue later on.

In general it would appear that there is the possibility of sharing several thousand dollars per unit if code requirements were reviewed updated and standardized. It appears FHMA spends a great deal of time dealing with specific items in construction in an effort to reduce costs. I would think the builder is the better expert in determining where the greatest costs can be saved. As long as his house meets minimum health and safety codes he should have a free hand in deciding how best to build to the cost requirements of the program.

Changes can be made without sacrificing safety. In New Mexico we build under the Uniform Building Code. Changes are made in this code yearly. Framing systems that were engineered and proven safe over 10 years ago are just now being approved by the UBC, and yet they appear to be more liberal than FHMA in some areas.

Thermal requirements appear to vary between sections of this state. Therefore, it is difficult to say whether or not requirements are excessive. The State of New Mexico's energy code requires R-11 walls, R-19 ceilings and double pane windows. The best I've been able to put together for FHMA is R-19 walls, R-38 ceilings and either double or triple pane windows. Recommendations from insulation companies vary even more depending upon what the customer hopes to accomplish. It would seem logical to me that modest housing should meet minimum requirements of thermal performance. I would recommend the state guidelines.

The New Mexico State Building Code provides more than adequate protection for homes built under the FHMA program. I certainly feel the UBC as nationally recognized minimum code can provide all the necessary health and safety requirements for these houses.

Paving requirements are excessive and unnecessary. In most small communities paving contractors are not readily available. Therefore the cost to import them from other communities is excessive. In the case of Cloudcroft the requirement eliminated FHMA development. This community does not allow paved residential streets. All over New Mexico there are small communities that have been totally eliminated from using these funds because of this one requirement.

The cost of curb and gutter, and paved streets as opposed to gravel streets vary from community to community. In Santa Fe where I develop land, the cost is approximately $2,000.00 per unit more for curb and gutter, and paving.

It would seem to me that the program could be more effective in New Mexico if the New Mexico Building Code were used. I would also recommend the use of State Building Inspectors instead of duplicate inspections by both the State Building Inspector and the FHMA County Supervisor. Different interpretations by these County Supervisors and in some cases even further interpretations by the State Supervisor seem to be the most aggravating problem to builders who have been involved with this program. This also seems to keep other builders from participating in the program. There have even been some reports of County Supervisors channeling FHMA funds to a select few builders even when others wanted to be involved in the program.

I do want to say, however, that most builders that I talked to felt the FHMA program was the best they had dealt with and had the potential to provide housing for a tremendous number of people.

There seems to be two main problems with HUD housing projects. Number one is bonding requirements and number two is prevailing wage rates. Bonds are unobtainable by home builders who build houses on speculative basis thus eliminating a large number of builders.

Prevailing wage rates generally are based on union wages and are considerably higher than non-union wages. However, this increased cost is not always picked up in appraisals or valuations set by the guidelines of the program.

Several years ago my firm attempted to build some houses for Indians at Tohatchi and Crown Point. The homes were to be financed by FHMA but apparently because of being Indian Housing we had to comply with HUD requirements of prevailing wages. The program allowed a maximum sale price of approximately $18,000.00. However, with paving that had to be brought from Gallup and prevailing wage rates based on union wages being paid in Phoenix it was impossible to make the program work. There were 44 units to be built in Tohatchi and 113 to be built in Crown Point. We asked for waivers of these requirements which were not granted, and to my knowledge the homes have never been built.

In a state like New Mexico there are many Rural communities that badly need additional housing it seems that with some simple cleanup and reorganization the Farmers Home Administration could provide the housing so badly needed.

Thank you for the opportunity to express my views. I hope this information can be of some help.

Sincerely,

MICHAEL CHAPMAN,
President.

HUD 235 PROGRAM

Senator SCHMITT. Mr. Thurston, have you used the 235 program of HUD?

Mr. THURSTON. Yes; we presently are—we've been allocated four and then we got an additional two allocations for the first of this month, so we are presently building.

Senator SCHMITT. Does it work better than 502?

Mr. THURSTON. I wouldn't say better; both of them are good in themselves, from the standpoint that one is under HUD and one is under Farmers Home. The income requirements vary under 235, it services a higher income person, like the six 235's that we were allocated, I think we ended up with the approximate average income of $20,000 to $22,000 family income on the six that we submitted under the 235 where with Farmers Home, 9 percent of our applicants are down in the $10,000, $11,000 price range, or in salary, so there's—what I'd like to see is a whole bunch of 235's and whole bunch of 502's because one services the low income and the other services what I call medium income.

Senator SCHMITT. We've been told that working with the 235 program is much simpler, even though it's still complex, it's still much simpler than working——

Mr. THURSTON. Timewise, the reason I would say that the areas of simplicity would be from the standpoint that we can use—and avoid the inspections by the Federal, you know, those type inspectors, except for the final inspection and the other thing would be——

Senator SCHMITT. The loan is processed in the private sector, right?

Mr. THURSTON. The loan is handled there by, you know, we use Southwest Mortgage, Bob Wertheim and that helps out a whole lot, so from that standpoint, we are saving time. The other thing that we can do as far as time is the appraisal; is done by a local appraiser appointed by HUD, so that cures the time as far as processing.

We've had applications take as long as 6 to 8 weeks, just to get the application approved under the 502 program and I would daresay that without some complications it is usually done in 3 weeks under the 235 program, so from that standpoint, I'd say it's faster and more economical.

Senator SCHMITT. Mr. Corley, you have a reputation for producing Farmers Home houses considerably more cheaply than the average for the State; do you have a secret you want to share with the subcommittee or would you like to keep it to yourself?

Mr. CORLEY. I like the 235's also, Senator. It's no secret, it's just work and elimination of waste, following the code, following the books, put the material where it belongs, don't leave it laying in the scrap pile. If you're going to work, go to work; if you don't, go home.

Senator SCHMITT. So it's actual—once you're into the project, you just——

Mr. CORLEY. Strict coordination.

Senator SCHMITT. The way you handle the actual construction, not some secret path you've found through the bureaucratic maze?

Mr. CORLEY. No, sir, absolutely not. I really enjoy what I consider the last 20 years low- and moderate-income people.

There are so many different organizations that sit around and talk about low- and moderate-housing, and they don't seem to do a darn thing about it but talk and in our different conversations here this morning, it appears that a lower level hasn't been reached.

I'd like to get more details on that because I have those families in the vicinity of $6,000, $7,000 a year income. I don't have the facts in front of me to say how many dependents and how large a family with that income, but anyone can spend money and build a big, elaborate, nice home and they have to throw the waste out to stay within those costs.

Mr. CHAPMAN. If I could add this to what Mr. Corley said. One of the other things that he does is, in his business, that he has a good ability to get all the problems worked out up front. Many of the builders that are involved in the Farmers Home program seem to be having a continual battle as to what specifications are required, and how to meet it or dealing with the inspectors and a lot of them come to Gene and say, how do I handle this guy, he won't pay any attention to me and they don't give Gene any guff because he's willing to call them on it and they've generally got the problems worked out beforehand, so that when he does start a house, he's got a lot of the problems solved. It does make a big difference if you're willing to stand and fight through the whole process.

MANUFACTURED HOUSING AND MOBILE HOMES

Senator SCHMITT. What about manufactured housing and mobile homes; Mike, would you care to comment on that?

Mr. CHAPMAN. Well, I think that there's a great potential there for housing lower income people. There's a lot of moderate-income people going into the mobile home market because there's no other alternative.

I think that to some extent that's a requirement or a result of the building codes being somewhat antiquated and policies adopted by the local communities that drive the price of land out of reach.

We're looking at some land in Roswell right now where we're talking about $7,500 lots being too expensive for the marketplace. That same lot in Santa Fe would be around $18,000, $20,000, and so those types of things affect not only community housing, but then they carry over into rural housing.

Senator SCHMITT. Mr. Corley, manufactured housing, does it have a place in the Farmers Home program?

Mr. CORLEY. Component, yes, sir. Mobile units, I have my reservations about.

Senator SCHMITT. Do you want to tell us why?

Mr. CORLEY. I don't believe that they meet our State building codes. I don't believe that they're built as good as our single-family homes are. I don't think the electrical or the plumbing is as good. I don't think the roofing is as good. I'd hate to stand on one of the roofs and work on an air-conditioner. You have to be careful, you feel like you're going to fall through anyway.

Mr. CHAPMAN. Fanning May [sic] has approved the use of mobile homes, or abandoned using mobile homes, and that might be a different approach to Farmers Home.

Mr. CORLEY. I feel I could give more livability for the same or very little more in a regular type constructed home, especially with your wood foundation you get a lot of smaller communities where ready-mix concrete is not available and not too many guys like to shovel that gravel into cement mixers anymore.

The modular homes——

Senator SCHMITT. Not many people are able to get their carpenters to use a piece of scrap when they need a 2 by 4 instead of breaking open a new bundle and cutting it off.

Mr. CORLEY. I can show them the way to go home.

Senator SCHMITT. Why can't we get everybody else out there on the job to do that. I know of some who are and I know some who aren't. People who are making it in this current environment are the people who are your kind of man.

Mr. CORLEY. Yes, sir, I appreciate that. I had a young contractor at my home last Wednesday, and he says, "Well, Gene, I'm going to use 2-by-6 stud construction over 16-inch centimeter," and I say, "Well, why?" and he says, "I don't think 2 feet is enough backing for my sheetrock." I said, "How's your roof going to be built?" He says, "I'm using trustles." And I said, "What span are you putting your trustles on." He said, "I'm going to put it on 2 feet. Then you're going to have weight of your arc hanging down on the 2 feet, but the 2 feet standing out in front of it," and I said "You build your houses that way," and he said, "Yes, sir." And I asked, "Why don't you put it on 12 centimeters, it will do the same damn good?" He sort of ducked his head.

I think 2-by-6 construction with R–19 walls, plus your sheeting, you have over and above your 19 requirement. Use plenty of calking to seal that house and I'm not going to get into any discussions of the R values and adobe, but I think that 2-by-6 pike sealed wall is very, very close to the same warmth and coolness of an adobe house. I love an adobe house because they're cooler in summer, or seem to be or appear to be, and they're easier to keep warm, but you have engineer's arguing the R value.

Senator SCHMITT. OK. Finally, any quick comment on Davis-Bacon? Is that a problem?

We've gotten two or three witnesses so far say it's not a big deal.

Mr. CORLEY. If I may comment on that. Senator, to the effect that bidding on Indian housing on the reservation back to your prevailing wage and Davis-Bacon act the same.

Senator SCHMITT. But its effect on other programs outside the reservation is minimal.

Mr. CORLEY. On any of the Government jobs it would cost you more money.

Senator SCHMITT. Probably be a fact on multifamily?

Mr. CORLEY. Yes.

Mr. THURSTON. Anytime you, you know, as far as hiring and paying; when you can pay a carpenter $8 an hour under the norm, but under the Davis-Bacon, you're actually paying $14, plus all benefits and so forth; it does nothing but raise the cost of labor, the additional bookwork and so forth, you're asking for additional problems.

I don't know the law of economics that will allow you to take an $8-hour guy and pay him $14 without increasing labor and that's been our problem.

Many times it's a problem with Davis-Bacon or Federal jobs or State jobs that requires if you're going to increase the cost of labor around, you know, anywhere from 30 to 50 percent because of that.

Senator SCHMITT. We've tried to run the Federal budget on that principal that you just described for a long time.

Mr. CHAPMAN. We looked at a project in Mora that the Mora housing authorities put together and it was just impossible to build and one of the biggest, single obstacle was the Davis-Bacon requirements.

I think that 30 percent is the minimal that they add to labor and certainly 100 percent is not uncommon.

Mr. CORLEY. There's an awful lot of carpenters working in the housing industry that are making very similar or less money than the laborer on the Bacon-Davis Act.

Senator SCHMITT. Gentlemen, we may have some questions for you for our record as we go through this information. Thank you very much and we'll move on to our next panel.

Mr. CHAPMAN. One quick comment. We went to check and say, if we are builders, how do we get involved in Farmers Home program; if someone would write you a letter and say I want some information on Farmers Home, what information do you send them? We're trying to get this in order to become better prepared for this; and the answer was, well, we really don't have any.

That's probably one of the reasons so much money is coming back. The builders that want to find out about and don't know about it, it's pretty difficult.

Senator SCHMITT. Thank you. Our next panel consists of Governor Pena, chairman of the Eight Northern Pueblos Council, Mr. Jon Colvin, vice president and treasurer of Dineh, is that correct; come forward, gentlemen, Cooperatives, Inc., and Mr. Henry Whipple of Fort Defiance Housing Corp.

Did the Governor make it; I guess not.

OK, Mr. Colvin; did I pronounce that right? Is it Jon or Juan?

STATEMENT OF JON COLVIN, VICE PRESIDENT AND TREASURER, DINEH COOPERATIVES, INC.

Mr. COLVIN. Jon.

Senator SCHMITT. Jon; all right; would you proceed with your testimony.

Mr. COLVIN. Thank you, Senator Schmitt. My name is Jon Colvin. I am the vice president and treasurer of Dineh Cooperatives, Inc., and Community Development Corp. serving the Navajo Nation. We appreciate your holding these hearings at such an appropriate time and as well as location that allows so many of us to be present without undue expense.

The timeliness for the specific Indian housing issue is particularly important. It is a program that has been recommended for zero funding by the Office of Management and Budget.

Mr. Chairman, I have submitted copies of my written testimony to the subcommittee and I request that it be entered in the record.

Senator SCHMITT. It will be.

Mr. COLVIN. The majority of my written testimony deals with a new legislative program that would make a wide range of housing activities eligible under the existing Indian community development block grant program within the Department of Housing and Urban Development. Relatively minor changes in the law will be necessary to establish such a program and, of course, action by the Appropriations Committee would be required to provide funds at the beginning of fiscal year 1983.

Let me state that the program is not meant to replace the programs of Farmers Home Administration, Veterans' Administration, and other agencies. It would modify the HUD Indian housing program.

The other programs cou'd be modified as necessary and I think your hearings are finding out that there are quite a few necessary changes, but they should be made available to the Indian people to the same extent that they are available to all other citizens of this country.

HUD INDIAN BLOCK GRANT PROGRAM

The proposal that we have submitted provides a rather detailed idea of how the HUD Indian community development and housing system and block grant program could operate and I won't repeat those details at this time, it's in the record, except to mention that the flexibility envisioned in the program would allow tribes to meet their own particular needs which as you know vary from reservation to reservation and really won't be met by a rigid and a narrow program such as we now have which is basically an urban model that has ineffectively been transplanted to reservations.

I would like to make some additional remarks that I feel are very important when evaluating this or other proposals to improve the provision of housing for Indian tribes and Alaskan Natives. It is considerable concern to the tribes whether the block grants are the funding mechanism or whether Indian housing flnds are channeled to tribes through Indian housing authorities as is currently the case, that the dollars available will be sufficient to meet the goal of bringing the supply and quality on reservation housing much more in line than what is taken for granted in almost all nonreservation portions of this country.

In particular, some tribal leaders have expressed their concern that block grants may result in less money being available even though the current funding level is not adequately meeting the needs and the block grants may not provide the assurance desired by the larger and poorer tribes, that funding will continue for the number of years which will be required in order to increase their stock of housing to even a minimum acceptable level and provide for its long term maintenance.

I also sense a fear among the tribal officials that the policies of the Federal Government may soon result in a failure to fulfill the moral, constitutional and treaty obligations to tribes and that very quickly they'll be left to cope with their enormous social and economic problems with only their own inadequate resources which are also underdeveloped. The Congress must not allow this to happen.

Another concern, perhaps unique to the CDEG funds which tribes receive, is the lack of provision to directly reimburse tribal governments for their necessary overhead costs through the indirect housing mechanism used by the Bureau of Indian Affairs, Health Services, and most other Federal agencies.

It is a fact of life that all governments require funds for which to provide central administrative services, and tribal governments are no exception. The concern is that less total money may be received through block grants than is received presently when negotiating indirect cost rates are included and as a result of forced reduction of management services will significantly diminish tribes' abilities to utilize the funds they do receive.

Considerations must also be given to maintain current funding levels or increasing the number of dollars appropriated for water and sewer development, particularly through Public Law 86–121 and for road construction. Without these two essential interest structure developments, development of a viable housing supply or even an economic phase is not possible.

TRIBAL INVESTMENTS

Senator SCHMITT. Could I interrupt you there just very briefly, and ask you if you personally believe that the Navajo Tribe that you're most closely associated with is investing sufficient levels of its own resources, those, say, derived from mineral royalties in the kind of interest structure that you're talking about?

Why should it always be the Federal Government's responsibility if the other incomes are good?

Mr. COLVIN. At the current time, I would say that they are not and I think that the tribal government is currently, both through the tribal administration and tribal counsel, looking at ways they can invest existing tribal resources whether those are trust funds available or whether that is money coming in through the various royalties in the programs. I've seen, in the last 2 years, and I've heard plans now for the next 2 or 3 years, of a much greater investment of tribal resources so I would say right now it is probably not as adequate as it could be, but it looks as though the tribe is planning to do considerably more in that area.

Senator SCHMITT. Looking in from the outside, I would have to be very candid and say it's been frustrating for some of us in trying to get increased mineral development within the proper safeguard, environmental and otherwise, in the reservation and seeing that continually frustrated so that the level of royalty income can't grow nearly at the rate that one would think is needed by the people of the tribe.

We've seen many projects either fall completely by the wayside or are still delayed to the extent that the people of the tribal region are just not having the benefit of the natural resources that come under their tribal jurisdiction, and in that regard it does make it difficult for some of us to argue in Washington that there ought to be an increase in funding to provide this interest structure when the tribe itself does not seem to be taking the necessary steps to see that they their own resources to provide that.

Mr. COLVIN. To a degree that's true and I think one of the other programs particularly within the Navajo Nation and there may be other tribes considering that as well, is trying to get the appropriate clearances through the Department of the Interior and the other agencies to be able to renegotiate some of the leases that in the past have been negotiated at what can only be described as a ridiculously low rate particularly considering the current market prices for resources so that the amount of money that will be coming in will be——

Senator SCHMITT. Leaving that aside, a lot of new resources can be negotiated at a considerably higher royalty value.

Mr. COLVIN. That is, I think what is beginning to happen, although I don't know that it's happening to the extent it ought to.

Senator SCHMITT. Please proceed.

Mr. COLVIN. Serious consideration should also be given to completely removing the Davis-Bacon wage requirements which add enormous and unnecessary extra costs to a program that is necessarily going to be more costly due to needed interest structure development and the extremely remote location of many reservation communities.

Discussions are still being held among Federal officials in Washington on whether the HUD Indian housing program should be transferred to the Bureau of Indian Affairs. At least two of the larger tribes have gone on record opposing such a move. Additionally, the intertribal counsel of Arizona whose membership is composed of 19 tribal governments passed 10 recommendations on Indian housing at their quarterly meeting on November 4, 1981, which included a recommendation to, "modify the current CDEG program to include housing construction and finance as eligible activities of tribal governments."

I understand now that the OMB interagency task force on Indian housing is seriously considering a combination voucher block grant approach. While details are not yet available, the question should be raised as to how much use the voucher system would be on reservations where there aren't the needed houses in the first place.

The housing that Mr. Jordon mentioned as being available for voucher rental are not yet available on most reservations.

Senator Schmitt, you mentioned that 8 to 13 percent vacancy rate on rental housing here in New Mexico. In the Navajo Nation, the situation is quite different. Most rental projects have such long waiting lists that in many cases no new applications have been accepted for months and in some cases even years

RURAL ECONOMIC DEVELOPMENT

I'd like to shift for a moment to rural economic development in general. The abolishment of the Community Services Administration and thus its Office of Economic Development has put in jeopardy the future of locally controlled community development corporations such as ours which incidentally is the only one in the United States working exclusively or even substantially in a reservation setting.

My written remarks mention a few of the very high impact projects our community development has successfully undertaken during the last 5 years. Projects primarily designed just to initiate the formation of that much talked about private sector which for most reservations is practically nonexistent.

I urge the subcommittee's investigation and developing and maintaining this proven and cost effective approach to rural development. The need to take action is urgent as funding for most community develop corporations runs out before the end of the current fiscal year.

I would be pleased to supply you with further information and the assistance of our staff on this topic as well as on Indian housing.

It was interesting and I was encouraged by the recent decision of the 10th Circuit Court of Appeals in Denver, wherein they stated:

> The overriding duty of our Federal Government is to deal fairly with the Indians wherever located. When depriving Indians of benefits that have long been provided to them, the Government must bend over backwards to assure fair treatment.

We would have to go further and state that the depriving of Indian people of benefits should not occur at all. What should occur is the most efficient use of the funds available, and it's our hope that the programs that we have presented will allow a great deal more to be accomplished for the money now being spent.

As you know, in the testimony I have listed a great number of problems in the current HUD Indian housing program. They have been documented for what seems like hundreds but I suppose it's 5 to 10 years going back in testimony that I have read and I'm really hopeful that this year or next we can begin addressing some of those problems and making the program much more efficient. There's a lot that can be done and we've tried to suggest at least some of those things that we feel will help.

Thank you.

[Complete prepared statement follows:]

WRITTEN TESTIMONY
of
JON D. COLVIN, VICE PRESIDENT AND TREASURER
DINEH COOPERATIVES, INCORPORATED
CHINLE, NAVAHO NATION
before the
SUBCOMMITTEE ON RURAL HOUSING AND DEVELOPMENT
SENATE COMMITTEE ON BANKING, HOUSING AND URBAN AFFAIRS
January 15, 1982

I would like to thank Chairman Schmitt for his interest in the concerns of Indian people and for his invitation to testify today. I am pleased to have this opportunity to discuss some of the problems that are being encountered regarding Indian housing, as well as to present a method of solving some of those problems. The following testimony was generated by representatives of various Tribes, mostly those in the Southwest, who believe that a new, improved and comprehensive Indian Housing Program is necessary and possible.

Dineh Cooperatives, Incorporated (DCI) is an Indian-controlled community development corporation assisting the Navaho Nation in establishing high-impact economic and community development projects. These projects include a community fire department, a demonstration farm, a $40,000,000+ hospital and housing complex, and a full-service shopping center.

Thus far DCI has been directly involved in three Community Development Block Grant funded projects. With CDBG providing an initial tire truck and fire station, DCI assisted the Chinle Planning Board in 1977 with the formation of the Chinle Community Fire Department. The department has grown in strength to 15 volunteers and 7 vehicles, receives an annual operating budget from local revenue sharing funds and is helping to draft the first fire and building codes for the Navaho Nation.

The second project is the Tseyi' Shopping Center. DCI began the development of this enterprise, located in Chinle, Navaho Nation, in late 1977. The shopping center opened for business in March 1981, and has since displayed impressive sales. Currently providing over 48,000 square feet of space to five tenants, the first phase of the center serves the nearly 30,000 residents in the heart of the Navaho Nation. Eventually, the shopping center will provide 110,000 square feet of retail space.

The third business, currently under development, is a 50,000 watt clear-channel commercial AM radio station which will broadcast almost exclusively in the Navaho language and will provide the first comprehensive means of communication for the reservation's 160,000 residents. In conjunction with these projects, DCI has involved itself in obtaining housing for the Chinle community, with an estimated 450 homes to be built over the next two years.

I mention our specific involvement with the Community Development Block Grant program because the majority of this testimony discusses a legislative proposal that would establish a new Indian housing assistance program using the block grant approach. This new approach would provide a wide variety of housing opportunities to Indian Tribes and Alaska Native Villages with a greater chance of meeting their specific needs on a more timely basis and at a lower cost.

I do not wish to dwell on the deficiencies of the current HUD Indian Housing Program. Many problems do exist, and they are fully set forth later in this testimony. However, at this time, I would like to simply touch upon some of the more pressing concerns that a new Indian Housing Program must address.

Despite the present programs that provide housing to Native American communities, there is still a great unmet need for housing assistance both on Indian reservations and in Alaska Native Villages. American Indians and Alaska Natives are still the most poorly housed of all Americans. While 12% of all Americans live in substandard housing, 62.4% of all Indians live in substandard housing. Although only 1.9% of all Americans live in overcrowded housing, 27.6% of all Indians live in overcrowded conditions. Almost 50% of Indian homes are without running water. Nationally accepted statistics reveal that there are about 60,000 units of substandard housing on Indian reservations.

The current HUD Indian Housing Program has been criticized for being both expensive and slow. The block grant approach that is proposed herein could reduce the cost of providing Indian housing assistance and could also substantially reduce construction time.

The complexity of the existing HUD Indian Housing Program has been cited as a partial cause of the delays in construction. As it presently exists, every project must go through many levels of governmental review, some of which are redundant, others unnecessary. The block grant approach could greatly decrease the complexity of the present system.

Finally, the current HUD program has been accused, again and again, of insensitivity to the cultural traditions of many Tribes. This criticism is well founded. An Indian Housing Program must be tailored to the unique status and needs of Indian people. This proposal would not only allow for, but would encourage, cultural integrity.

The proposal is very simple. It would make a broad range of housing assistance activities eligible for funding under the existing Indian Community Development Block Grant Program, and would appropriate $260 million to provide housing assistance to approximately 3,000 to 4,000 Indian families a year -- and maybe more. The program would do this by reducing the unit cost of housing from $60,000 - $80,000 to $30,000 - $50,000.

It is clear that the block grant approach would radically change the system by which the federal government provides housing assistance to Native Americans, leading to many long-sought and long-needed reforms. The federal involvement in the provision of Indian housing would be reduced in two ways. The direct cost to the federal government of providing Indian housing would be reduced. In addition, the block grant program would accelerate Tribal independence from the federal government by encouraging the development of a Tribal-private sector housing economy.

A number of factors currently interact to discourage the private sector, and the Tribes themselves, from tapping the vast market for housing on Indian reservations. The block grant program would eliminate many of these obstacles. Financial institutions are leery of the trust status of Indian lands, which does not currently provide the form of security to which the marketplace has become accustomed. This proposal would allow the use of federally provided funds as guarantees or security for tribally sponsored, privately financed housing. The program would allow Tribes to invest housing block grant funds in program related bonds or notes, the yield and principal of which could be used to provide housing assistance.

The future of the Tribes lies with the growing numbers of college-educated Tribal members who wish to return to their reservations to help their own people. On many reservations, these people work for the Tribal government, earning salaries that are too high for them to be eligible for HUD-assisted housing. The absence of housing programs for such moderate and upper income tribal members does not encourage them to stay on the reservation. The block grant approach would provide for loans and loan guarantees to finance the construction or acquisition of housing for such moderate and upper income tribal members, thereby encouraging the full development and utilization of a valuable Tribal resource.

Adding housing to the existing Community Development Block Grant program would foster a comprehensive approach in the planning and implementation of community, economic development and housing projects. It would also allow the Tribes to utilize available resources according to their own priorities, rather than the priorities of funding sources. In addition, by creating a flexible mechanism oriented toward the private sector, this proposal would encourage the development of various enterprises associated with housing, among them construction, maintenance and management. The flexibility and automony given to Tribes by this proposal would greatly increase their ability to become self-supporting as well as self-determined.

In effect, then, the proposed program would simply remove existing restrictions on the provision of housing assistance under the Community Development Block Grant program for a group of communities that has special needs and relationships with the government that have been long acknowledged. The program would expand the types of housing assistance that could be provided to Indians and Alaska Natives, and would do so at a reduced cost to the federal government by utilizing a simple, flexible, comprehensive and culturally responsive tool.

This block grant approach would keep the Indian Housing Program in HUD. HUD has not only had experience with housing programs, but has also, through its Offices of Indian Programs, become very familiar with the specific needs and problems of Tribes. In addition, HUD/CDBG currently utilizes a field level consultation system that provides those concerned with meaningful input into the program's regulations. This form of input must be required by statute or regulation in any revisions to the Indian Housing Program.

It has been suggested that the Indian Housing Program be transferred to the Bureau of Indian Affairs. However, the BIA has had experience with only one very small housing program, and does not have either the regulations or staff that would be needed to administer a comprehensive Indian Housing Program. Discussions with Tribal officials during the preparation of this testimony has suggested that the Tribes would not favor a transfer of the Indian Housing Program to the BIA.

Those of us who have worked on this proposal would be most happy to assist this Subcommittee or any of the other Committees of Congress in exploring this and other options so that some meaningful changes can be instituted to aid the original citizens of this country in obtaining sufficient safe and sanitary housing.

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A PROPOSAL FOR ESTABLISHING
A NEW INDIAN HOUSING ASSISTANCE PROGRAM

I. INTRODUCTION

This is a legislative proposal for a program that would radically change the way in which the federal government provides housing assistance to Native Americans. It would expand the kinds of housing assistance that could be made available to American Indians and Alaska Natives and at the same time would reduce the cost to the federal government of providing such assistance. It would create a simple, flexible, comprehensive and culturally responsive tool for Tribal governments to use in meeting the critical housing needs of Indian Tribes and Alaska Native Villages. It would enhance the ability of Indian Tribes and Alaska Native Villages to become self-supporting, viable and self-determined communities and would eventually reduce, if not eliminate, their dependence on the federal government for the provision of housing assistance.

The proposal is very simple. It would make a broad range of housing assistance activities eligible activities under the existing Indian Community Development Block Grant program and appropriate a reduced (from the 1980 $703 Million) but adequate amount of money to provide housing assistance to approximately 3,000 to 4,000 Indian families a year and maybe more.

This proposal was developed by a group of Tribal chairmen, their staffs and Tribal organizations in response both to the threatened elimination of the existing Indian housing program and to the Tribes' long-standing frustration with the difficulties of trying to administer this complex and culturally unresponsive program. Although this proposal has been under development for many months and has been widely reviewed, there are still some details which need to be worked out. However, it is believed that enough is now known about how this program approach would work to justify its enactment in FY82 for implementation in FY83.

This document is divided into two parts. Section II is a general, non-statistical analysis of the problems Tribes, federal agencies and the Congress have experienced in trying to administer the existing Indian housing program. Section III justifies and describes how the Indian Community Development and Housing Assistance Block Grant Program would work and what it could be expected to accomplish.

II. NEED AND PROBLEM ANALYSIS FOR A NEW INDIAN HOUSING ASSISTANCE PROGRAM

A. Background

The existing Indian Housing Program has been proposed for elimination. Several reasons for its elimination have been cited by critics of the program. These include:

+ **Its cost.** Construction and financing costs can reach $175,000 per unit.

+ **The extensive existing pipeline.** Counting the initial FY81 allocation, some 22,000 units are currently in process.

+ **Lack of rent collections.** Indian housing authorities lose substantial income from uncollected housing payments.

+ **Interagency agreement.** The involvement of three federal agencies--BIA, IHS and HUD--adds substantially both to the program's cost and to its complexity.

+ **The complexity of the program.** It is estimated that it will take five years to complete the 22,000 units that have been allocated because of excessive regulation and overly complex program standards and requirements.

+ **Housing authority capacity, program abuse and mismanagement.** In addition to the rent collection problem, there have been several celebrated cases of gross mis-management and fraud by Indian Housing Authorities. Also, many IHAs are perceived as being less than competent in their program management practices.

+ **HUD organization.** HUD's management of the program has been criticized for being slow, unresponsive, understaffed and disorganized.

+ **Its insensitivity to the cultural traditions of many Tribes.** The existing program imposes Western European structural, financial and cultural values on Indian people to whom these values are often irrelevant and occasionally repugnant.

Each of these criticisms of the Indian Housing Program is analyzed briefly in the following discussion along with several other program policies and operational issues. Taken together, these problems suggest the need for major revisions in the Indian Housing Program, but not necessarily a need to eliminate it altogether.

B. General Needs Analysis

There remains a substantial unmet need for housing assistance on Indian reservations and in Alaska Native Villages. American Indians and Alaska Natives remain the most poorly housed of all Americans. Whereas 12% of all Americans live in substandard housing, 62.4% of all Indians live in substandard housing. While only 1.9% of all Americans live in overcrowded housing, 27.6% of all Indians live in overcrowded housing. Almost 50% of Indian homes lack indoor bathrooms and nearly 30% are without running water. Nationally accepted statistics reveal that there are about 60,000 units of substandard housing on Indian reservations. This figure is probably accurate with regard to existing substandard units. It is probably seriously understated when the very high birth rate and the decreasing mortality rate on the largest reservations are considered. Nor does the 60,000 unit figure include the Indian families living near reservations who were effectively forced to move away from "home" as a result either of federal termination and relocation policies or for economic reasons. Many of these near reservation families have expressed a desire to move back to the reservation if adequate housing was available.

Nor does the 60,000 unit estimate include a growing segment of the reservation Indian population. The future of most Indian Tribes is lodged in the growing numbers of college educated young people who wish to return to their reservations to help their own people. In this and other respects many of the larger reservations resemble lesser developed countries. However, many of the educated young people are discouraged from returning to their reservations because adequate housing is not available. Of greater concern is the problem of keeping the productive young people who have returned.

On many reservations, the younger, educated people work for Tribal government and have incomes too high to be eligible for HUD-assisted housing. They live cramped in trailer homes while the federal government is building spacious single-family houses for less productive Tribal members.

These families could, in a non-reservation context, probably afford to pay for their own houses with a modest subsidy. Without a means of financing housing on-reservation, there are few, if any, opportunities or incentives for them to remain. This group represents an important housing need on reservations that is not addressed under the current Indian Housing Program.

Finally, it must be acknowledged that the bulk of the residual Indian housing needs is on about forty very large, very poor reservations. The needs of smaller Tribes can often be met with one housing project after which the federal government has no on-going obligation except to insure that the houses are adequately maintained and occupied by the intended beneficiaries.

C. Problem Analysis

1. Costs

The Indian Housing Program has been criticized because of its high construction and financing costs compared to other housing programs. This is a valid criticism, at least in part.

The Indian Housing Program produces units with a development cost that is higher on the average than other forms of housing, both subsidized and non-subsidized. For FY80 Indian housing units reaching construction start averaged $65,415 in total development costs, as compared to an average of $43,956 for all Low Income Public Housing units started. (See Table I) The Section 8 Program, as financed by GNMA Tandem, produced an even lower average cost, $41,650 per unit. Indian housing also was more costly than non-subsidized single-family dwellings in rural areas. In 1980, the average new FmHA-financed single-family dwelling sold for $40,200 while the average newly constructed single-family home located outside an SMSA sold for $54,800.

Indian housing is still more expensive than non-Indian housing.

However, these average construction costs include Alaska Native Villages and the Navajo Nation, where extraordinary construction costs prevail. In Alaska, the average per unit cost is estimated by the Native American Indian Housing Council to be about $84,600. These seemingly excessive costs appear to be related to the extremely remote locations of most Alaska Native Villages; the resulting cost of transportation and access; the short construction season and the imposition of the very expensive Minimum Property Standards' requirements in locales where the provision of standard sewer treatment systems, for example, is not only expensive but unworkable.

On the Navajo Reservation, NAIHC estimates that the average construction cost is about $77,000 per unit. These extreme costs appear to be associated with the remote locations of many Navajo chapters and the imposition by the Tribe of wage rates which exceed Davis-Bacon wage rates that are already considered excessive by many housing ~~industry~~ experts.

When Alaska and Navajo are excluded from the calculation of the average per unit construction cost of Indian housing nationally, NAIHC estimates that the average per unit construction cost is about $58,000 and the total per unit cost is about $132,000 when financing costs are included. Table I below presents the average per unit construction cost including Alaska and Navajo.

However, when the total construction and financing costs of various programs are compared (including Navajo and Alaska), it appears that the government gets as much or more for its money for Indian housing as it does for most other types of assisted housing when unit size and financing costs are considered (see Table II).

Table I
Average Per Unit Cost, 1980

Indian Housing[1]	$65,415
LIPH[2]	$43,956
Section 8[3]	$41,650
FmHA[4]	$40,200
Rural Single Family[5]	$54,800

[1] Average development cost including construction, land, and land preparation, for units reaching construction start in FY80 includes the costs of Alaska and Navajo projects.

[2] Average development cost including construction, land, and land preparation, for units reaching construction start in FY80 includes the costs of Alaska and Navajo projects.

[3] Average development cost of GNMA Tandem-financed units in FY80, assuming a 90% mortgage; includes land, land preparation, and construction. SOURCE: GNMA, U.S. Department of Housing and Urban Development

[4] Average sales price of a new FmHA-financed single family home, 1980. SOURCE: Bureau of the Census, U.S. Department of Commerce

[5] Average sales price of a new single family home, 1980, in areas outside of SMSAs. SOURCE: Bureau of the Census, U.S. Department of Commerce

Table II
Comparative Costs, 1980

	Indian Housing	LIPH	Section 8	FmHA	Single Family Rural
Total Development Cost per Unit[1]	$ 65,415	$ 43,956	$ 41,650	$ 40,200	$ 54,800
Total Financing Cost[2]	$ 68,568	$ 57,316	$ 56,875	$ -0-	$ -0-
Tandem Subsidy[3]	$ -0-	$ -0-	$ 70,891	$ -0-	$ -0-
Income Foregone, U.S. Treasury[4]	$ 34,284	$ 28,658	Missing[5]	$ 37,670	$ 50,432[6]
Total Costs[7]	$168,267	$129,930	$169,416	$ 37,670	$ 50,432
Unit Size	5.22 Rms.	3.82 Rms.	Missing	Missing	1,410 Sq. Ft.

[1] See Table I for development cost data and sources.

[2] Total financing cost to the government; for Indian housing assume 25-year mortgage term at 6.62% interest; for LIPH assume 30-year mortgage term at 6.62% interest; for Section 8 assume GNMA Tandem 7.5% interest rate and 30-year term; for FmHA and single-family rural there are no direct interest expenses to the government.

[3] GNMA Tandem financing provides subsidy coverning the difference between 7.5% interest rate and 14.5% market rate.

[4] For Indian housing and LIPH assume tax exempt land purchaser is in 50% tax bracket; for FmHA and rural single-family assume homeowner is in 30% tax bracket.

[5] Income foregone to the Treasury for Section 8 Housing is not presented here, but this would include tax income lost through the tax provisions for depreciation tax shelters, less the capital gains tax.

[6] Assumes 90% mortgage.

[7] Total costs to the government in constant dollars, including development, financing, and income foregone for Indian housing and LIPH and assumes no income. For Section 8 includes development, financing, and Tandem subsidy and assumes no income; for FmHA and rural single-family includes only income foregone to the Treasury.

2. Pipeline

The Indian Housing Program has also been proposed for elimination, at least temporarily, because there are purported to be an excessive number--22,000 units-- in the pipeline that will take HUD five years to complete.

The Indian Housing Program has, however, proportionally fewer units delayed in the pre-construction pipeline than the Low Income Public Housing Program.

Since the program was reinstituted in 1976, the Indian Housing Program has produced over 12,000 units in construction starts, while during the same time period, LIPH has produced over 67,000 units. However, there are 70,784 units in the LIPH pipeline backlogged nationally (units that were reserved over 16 months ago that have not reached construction start) as compared to only 5,939 units in the Indian Housing Program backlogged pipeline. Thus, of all Indian units reserved from 1976 through 1979, 67.5% have reached construction start, as compared to only 48.7% of LIPH reservations.

These statistics indicate that the estimates of the Indian housing pipeline may have been exaggerated. Some analysts have suggested there are 22,000 units in the Indian housing pipeline. Other data indicates, however, that there are fewer than 6,000 units in the pipeline backlog (units that were reserved more than 16 months ago). The balance (16,000 units) apparently includes only those units that were reserved less than 16 months ago and could not be realistically expected to move from reservation to construction start in such a short time.

3. Rent or Housing Payment Collection

The Indian Housing Program has been criticized for having excessive accounts receivable because too many Indian families refuse to make housing payments.

It is true Indian Housing Authorities and Tribes have severe rent collection problems. However, collecting rent from poor people is generally a problem and it does not appear that Indian Tribes have proportionally greater problems than most city authorities.

Indian Tribes and Housing Authorities, moreover, have significantly more difficult cultural and legal problems in terms of rent collections than any city. Given these problems, it is understandable that delinquent rents are commonplace on many reservations. Indeed, it is surprising that the problems are not worse than they are.

Most Tribes and Alaska Native Villages have had cash economies for less than a century. Moreover, housing traditionally was self-built and basic shelter. It was not perceived as an economic commodity. There is, therefore, no long term tradition of paying for housing among most Native Americans. This tradition has been reinforced by federal policies that have encouraged expectations among Native Americans for total housing assistance that persist today. Until the HUD Indian Housing Program started in 1961, most federally assisted housing on reservations was provided free to Indian families.

There is also little incentive for Indian families to pay for their HUD-assisted houses. As explained below, eviction for non-payment of rent is difficult for Tribes and the families know it. As important, however, is the fact that there is no opportunity for Indian families living in mutual-help (home-ownership) units to take economic advantage of the equity they have built up in their homes. "Pride" of ownership is all they get. Indian mutual-help families cannot, as a practical matter, borrow against equity or the appreciation of their homes nor can they sell their units if they wish. Most families with limited disposable income, who found themselves in this situation, would almost certainly choose to "invest" in a more negotiable asset. There are more incentives for families to pay off their pickup trucks than their houses.

Until Indian reservations were created, there was almost no tradition of individual land-holding among Native Americans, although Tribal territorial imperatives were very strong. Today, Indian families live on cramped reservations without the freedom of movement that they historically enjoyed. They have developed a fierce identity with their assignments or allotments of individual parcels of land. Most federally assisted housing is built on families' assignments or allotments. Evicting families for non-payment of rent from houses built on their own land is not only politically difficult for Tribes, it is culturally almost impossible because evicting families from their houses also has the effect of evicting them from their land. Also, other Indian families are likely to be reluctant to occupy an evicted family's home for fear of almost certain reprisal, if not for reasons of cultural sensitivity. This increases the reluctance of Tribes to evict families for non-payment of rent on HUD-assisted units. Finally, with the chronic shortage of housing on reservations, evicted families have nowhere to go and Tribal Councils and courts are understandably reluctant literally to put people "out in the cold." For all these cultural reasons that explain high delinquency rates, however, there are some less attractive ones as well. There are preliminary indications that a very high percentage of delinquent homeowners are federal employees, working for BIA or IHS on reservations. Also, many delinquent families are younger Tribal members who apparently have "figured out the system" and are cynically manipulating it.

Again, the problem seems to stem from the lack of tools and incentives under the existing program to force collections in the face of serious legal, cultural and political obstacles. IHA Boards of Commissioners are not politically accountable bodies, although they are often highly politicized. Their job is to build houses. This perception of the IHA role is reinforced by HUD's chronic "production" imperative. It is neither to the IHA's nor HUD's advantage to evict people because it would be difficult to justify building more units when there are many houses standing vacant as a result of aggressive eviction policies.

Moreover, federal policy regarding housing payments has not addressed these practical and cultural obstacles. On the one hand, HUD requires housing payments and eviction for non-payment--standard western economic assumptions. On the other hand, even if cultural tradition supported it, there is no provision for the private buying and selling of HUD-assisted "Mutual-Help" units--also standard western economic assumptions. If families who cannot or will not pay their rent could be made to see the economic benefit of being able to sell their houses or made to realize in economic terms the cost and value of what they have, these families might become more willing to act in a responsible manner.

It seems clear that any new federal policy for Indian housing should address this contradiction.

4. Interagency Agreement

The current Indian Housing Program requires IHS to fund a certain percent of the water and sewer costs and BIA to also fund a certain percent of the road construction costs for HUD-assisted housing projects. The way each agency budgets and contracts for its share of a project is different and occurs at a different time in the development cycle. In addition to the confusion and uncertainty that this interagency funding agreement causes, it can and has caused expensive delays in construction and occupancy. The magnitude of the cost of these delays is unknown.

It seems clear, however, that requiring three federal agencies to fund a single housing project under three different sets of regulations according to three budgeting processes at three different times causes unnecessary hardship on Indian Housing Authorities and Tribes.

Any new or revised federal program should address this issue.

5. Program Complexity

In addition to the complexity inherent in the local administration of the Interagency Agreement, the Indian Housing Program is clearly over-regulated. Almost every decision is made twice, once by the Housing Authority and once by the federal government. Often, a decision is made three or four times. Moreover, some very important decisions are made solely by the IHA and less important operating decisions are essentially made by the BIA, HUD or IHS.

The purpose of any federal regulation is to ensure that the desired objective is met and that the federal investment is protected. Current regulations seek to ensure the provision of high-quality housing units at the lowest cost by requiring federal intervention at virtually every step in the process. For example, HUD reviews and approves plans and specifications for cost and design standards, bid documents for procedural adequacy, authorizes IHAs to go out to bid and reviews contract awards for technical compliance with regulations.

HUD finds itself helpless, however, to prevent an IHA from succumbing to the blandishments of less than competent or unscrupulous architects who induce often unsophisticated Indian housing commissioners into accepting "canned" plans that the federal government has already paid for at least once and are blatantly irrelevant to Tribal cultural requirements.

In short, the federal government appears to intervene where it should not have to in order to insure the construction of high quality, low cost housing and cannot intervene where it must in order to insure achieving the same objective. The result, too often, is that Indian families get high cost houses of poor quality that the government is later often obliged to repair at substantial cost. It seems apparent that changing the focus of federal intervention might reduce the time it takes to complete a project and, therefore, its costs, without jeopardizing the federal interest. It should also be noted that the number of decisions that the government is directly involved in and, therefore, legally responsible for, also increases the federal government's liability to suit. The consequent cost implications are clear.

Any new or revised Indian Housing Program should address these issues.

6. HUD Organization

HUD has often been criticized for providing poor housing services to Indian Tribes. Excessive delays in processing housing applications, overly complex and unresponsive policies, uncoordinated service delivery, etc., have all been criticized.

The creation of several new Offices of Indian Programs to administer all of HUD's Indian programs is believed by many to be the appropriate first step toward improving service and reducing processing time. Creation of a HUD Assistant Secretary of Indian Programs was proposed several years ago as a way of making housing policy more responsive to the special legal and cultural situations of Tribes. The proposal was rejected for cost considerations and it seems clear that cost concerns might again cause rejection of this idea. Increasing the size and organizational visibility of the Washington Indian Housing staff might be an alternative to a fully staffed Assistant Secretary's Office.

7. Housing Authority Capacity and Program Abuse and Mismanagement

a. Abuse

The celebrated cases of abuse and gross mismanagement of the Indian Housing Program funds have been a few isolated instances that are more than matched in number and severity by city housing scandals.

b. Housing Authority Capacity - Boards of Commissioners

The problem of lack of administrative capacity among Indian Housing Authorities, however, is epidemic. Boards of Commissioners are almost never made up of housing professionals as originally envisioned. This kind of expertise simply does not exist on most reservations and most Tribes are legitimately reluctant to put "outsiders" on policy making bodies. As a result housing commissioners are most often untrained Tribal members who work and have little time to carry out their responsibilities. As a result, even getting quorums for meetings is frequently impossible.

Moreover, Boards of Commissioners are not directly accountable either to Tribal members or to Tribal Councils. Nor is there much incentive for them to be accountable. Once appointed, commissioners can only be removed for cause before their terms expire. Yet they are responsible for overseeing the management of millions of dollars in federal funds for one of the most important of all programs for Tribal development. City housing authority boards are responsible for building and managing a relatively small part of a city's housing stock. Indian Housing Authorities, on the other hand, are responsible for building and managing virtually all of a Tribe's housing stock. Many Indian commissioners are not unaware of the unaccountable power they wield. In fact, many Indian Housing Authority boards are far more powerful than their Tribal Councils in terms of dollars controlled.

Accountability is also a problem for IHAs that serve more than one Tribe. Often Tribes are too small to be able to support their own housing authorities. Small Tribes have often formed joint housing authorities to overcome this problem. Joint authorities, however, are even less accountable than individual Tribal authorities and often control even more money. Moreover, their existence creates a situation in which member Tribes compete for unit allocations. Add this level of competition to the competing demands of families on each reservation and ugly inter- and intra-Tribal confrontations can and do develop.

Any new Indian housing policy should re-examine the role of or the necessity for an independent housing authority Board of Commissioners. Such boards are vestiges of 1930 municipal assumptions and may be irrelevant for Indian Tribes in the 1980s.

c. Housing Authority Capacity - Role of Tribal Councils

Under the current Indian Housing Program there is no incentive for positive Tribal Council involvement in the housing program. Housing authority chairmen and their staffs often complain that they do not receive enough money or political support from Tribal governments; that Tribal Councils often just create or join Housing Authorities and then forget them.

If the role of Tribal Councils in the housing program is examined, however, it is essentially negative. A Tribal ordinance creates an IHA and provides for eviction for non-payment of rent. Many eviction actions, however, end up before Tribal Councils because families are being evicted from their assignments. Tribal Councils, therefore, are often required to take the punitive action of taking homes away from voters without ever having had the political benefit of providing the houses in the first place.

Some eviction actions go before Tribal courts. In these cases, Tribal Councils are somewhat insulated politically. However, Tribal courts, responsible for dispensing justice, are perceived as part of Tribal government whereas Housing Authorities, dispensing housing units, often are not.

In the development of any new housing program, the possibility of creating a more positive and, therefore, responsible role for Tribal government in the provision of housing should be examined.

d. Housing Authority Capacity - Staff

It is often difficult for IHAs to find and keep qualified staff for several reasons:

+ Many Tribes and IHAs prefer to hire Tribal members for all positions. Often the people hired are inexperienced and lack the qualifications for implementing a highly complex program like the Indian Housing Program. Mismanagement, if not failure, often results.

- The hiring and firing practices of many IHA Boards are often whimsical, sometimes irresponsible and politically inspired. This could be expected from unsophisticated people controlling millions of dollars through an unaccountable organization. It must be noted that this is probably true for many city as well as Indian Housing Authorities.

The result of these problems is very high staff turn-over rates that contribute to discontinuous operations, costly delays, constant retraining and, frequently, the mismanagement associated with ignorance and confusion.

Finally, it must be recognized that the skills and background required to oversee a complex construction project are different from those required for on-going property management. Often, IHA staff of limited experience to start with are required to perform both functions.

This issue of both IHA and Tribal capacity should be addressed in any new Indian housing policy or program.

8. The Insensitivity of the Indian Housing Program to Tribal Cultural Traditions

The lack of sensitivity to Tribal culture and traditions of the existing Indian Housing Program may be its most serious flaw. The foregoing analysis suggests that the program is not really as expensive as its critics contend; that the Indian pipeline compares very favorably to the city LIPH programs; that IHA rent collection problems are at least comparable with city Housing Authorities, etc. In short, the current program is at least as effective as other federal housing programs.

The one thing the Indian Housing Program is not, however, is responsive and sensitive to the cultural traditions of Indian people. For example, it took one Tribe in Minnesota years to come up with an acceptable housing design that incorporated their tribal tradition of having a large common living, dining, sleeping and cooking area and still meet the Minimum Property Standards' requirements for separate bedrooms for adults and children of different sexes. Often houses are sited to meet federal cost concerns without taking into account that certain Tribes have religious traditions for siting houses to face the east. As described below, the MPS imposes middle class non-Indian structural, financial and cultural values on Indian Tribes that have very different values. In short, the existing Indian Housing Program imposes a "state of middle-class blessedness" on Indian families who find this state not only alien, but often repugnant as well.

Only a few Tribes have successfully resisted the government's relentless insistence on design and amenity conformity. Most have acquiesed because housing is so important to viable reservation living.

The richness and diversity of this country's American Indian heritage has recently begun to be recognized as an important national attribute. The Indian Child Welfare Act and the statutory protection of Indian religious expression are only two of many examples of this growing recognition. The Indian Housing Program fails to recognize and address the special cultural needs of Indian Tribes. Any new or revised Indian Housing Program should examine this issue.

9. Other Issues to be Addressed

In addition to the general problems described above, there is a series of technical problems associated with Indian housing construction and management that must be addressed in any proposal designed to improve the program. They are listed and briefly described below.

a. Minimum Property Construction and Amenity Standards

The current set of Minimum Property Standards is a well-intentioned effort to protect the federal government's interest in building decent, safe and sanitary housing that is comfortable and affordable. They are mostly very detailed precision standards, not general performance standards. They are also very complex and rigid.

The standards address construction quality issues such as the load-bearing characteristics of walls in order to insure the structural integrity of a house. They also address amenity issues such as the number and sex of the children who can sleep in the same bedroom. In both areas they are insensitive to the cultural preferences and housing traditions of the Tribes. The result often is Indian families living in subdivisions of typical "American" three-bedroom ranch-style houses, complete with carports and all-electric kitchens, when those families might have preferred common sleeping quarters and wood burning stoves.

The standards have also resulted in inflated construction costs and Indian families living in what amounts to luxury housing whether they wanted to or could afford the utility bills or not.

No substantial reduction in the cost of Indian housing is possible unless the Minimum Property Standards are reduced and made less complex. No improvement in the cultural responsiveness of the Indian Housing Program is possible unless the standards are made more flexible.

b. Cost of Architecture and Engineering

The complexity of the MPS has also increased the A & E cost of Indian housing because these costs are typically calculated as a percentage of construction costs. If the MPA requirements were reduced, A & E firms could not use the technical complexity of the MPS to justify their charges. It should also be noted that the complexity of the MPS has created a mystique that too many A & E firms have used to camouflage poor design and excessive construction costs.

c. Construction Deficiencies and Contract Disputes

Whether related to poor design or shoddy workmanship, construction deficiences and contract disputes are a serious problem in Indian housing projects despite the efforts of Tribal and federal staff to prevent them. This problem must be considered in developing revised policy.

d. Utility Costs

Rising utility costs for both power and heat, together with rising unemployment on Indian reservations and the remote locations of many reservations, suggest the urgent need to revise federal assumptions and standards regarding utility services.

Many Indian families are living in houses that were designed without consideration for their energy efficiency. The result of rising energy costs is that families cannot afford the power to cook in their new all-electric kitchens or to pay for the propane to heat homes that were built without fireplaces or wood burning stoves because of construction cost considerations. Any new program or policy must address the issue of energy efficiency or the government will not be providing comfortable and affordable housing.

e. Wage Rate Requirement

Force account construction is allowed only under rare and prescribed circumstances in the existing Indian Housing Program. Virtually all construction work is done by non-Indian contractors who are required to pay Davis-Bacon wages. HUD is required to insure that workers are paid the appropriate wages and enforce the restitution of wages for underpaid workers by contractors.

Often the wage restitution is far less than the cost to the government of enforcing compliance. Moreover, the wage rates established by the Department of Labor for Tribal projects are those for the nearest large city where the cost of living is much higher than on reservations. Also, it is estimated that the cumbersome administrative requirements for HUD, IHAs and contractors can add as much as 15% - 20% to total project costs.

Finally, the effective insistance by government regulation that all construction work be done by professional contractors ignores the potential for the "self-help" capability of many Indian families. It may be possible, for example, for force account crews or individual families to frame and enclose their houses if provided expert supervision. This could limit the government's responsibilities to the provision of materials, supervision and technical interior work such as plumbing and wiring. This approach, however, could add substantially to the time involved in building a house. Nonetheless, the issues of Davis-Bacon wage rates, force account and self-help should be re-examined.

f. Administrative Costs

There are currently two major areas of IHA administrative responsibility: housing construction and housing management. As mentioned earlier, these two functions require different skills and experience.

Currently, the IHA's costs associated with the on-going management of Indian housing are paid for by small, typically $25.00 per month, payments by individual families. Often this is all a family pays and the government picks up 100% of all construction and financing costs. Even at this, the housing payments barely cover IHA administrative costs. Development costs associated with the planning, architecture, engineering, etc., of individual housing projects are paid for by HUD preliminary loans that are later included in the Annual Contributions Contract.

Housing development administrative costs are often sporadic; they are funded on a project-by-project basis. Housing or property management costs are on-going IHA responsibilities. There is a radical difference in the appropriate way to fund such disparate activities.

Any new Indian Housing Program should examine the possibility of identifying different funding conduits for such different activities.

g. Relationship of Housing Payments to Construction and Financing Costs

Currently, there is no relationship between what families pay for housing and what the housing costs to build and finance. Many families, even those living in mutual help units, often pay only the on-going IHA management fee. Some contribute as little as $5.00 per month toward the equity in their houses when utility subsidies and the like are deducted from their monthly payments. These families, if they pay their monthly fees, get title to their homes in 25 years as if they had paid for them. This clearly adds both to excessive federal costs and to the perception among Indian families that there is little economic value in their homes and, therefore, no economic advantage in paying more for them. The logical and realistic possibility of requiring Indian families to contribute toward both the on-going management costs and a share of the construction/financing costs should be explored in the development of any new Indian Housing Program.

III. THE INDIAN COMMUNITY DEVELOPMENT AND HOUSING ASSISTANCE BLOCK GRANT PROGRAM

A. Background Summary

The problems with the existing Indian Housing Program, discussed under Section II above are serious. The problems must be addressed or the continued provision of housing assistance to Indian Tribes and Alaska Native Villages will be in jeopardy. Without housing Native American communities will not become the viable, self-sustaining communities so long sought by both Congress and the Tribes alike.

The problems, taken together with the current budget crisis and shifts in national priorities, present Congress and Tribes with an opportunity to re-think the existing Indian Housing Program entirely, to re-examine its assumptions and to devise a new and better approach to the provision of housing assistance to Indian people.

The establishment of a single, consolidated, tightly coordinated, and comprehensive approach such as the proposed Indian Community Development and Housing Assistance Block Grant program would constitute the kind of new direction appropriate to the circumstances and would result in the desired improvements in the provision of housing assistance to Native Americans.

B. Program Objectives

It is believed that the proposed Indian Community Development and Housing Assistance Block Grant program answers all or most of the concerns raised by congressional and Tribal criticism of the existing Indian Housing Program.

+ It will provide new houses that are cheaper to build and finance than under the current program.

+ It will be simpler and less expensive to administer, both for Tribes and the federal government, than the current program.

+ It will provide more assistance to more families at lower cost than under the existing program.

+ It is less subject to the unaccountable abuse and mismanagement of funds than under the existing program.

+ Indian families will be willing to pay more for their houses.

+ Tribal governments will insure the solvency and effectiveness of their housing programs.

- It will be more responsive to the diverse cultural and legal circumstances of Indian Tribes and Alaska Native Villages.

In addition, the program should move Tribes and Alaska Native Villages toward independence from federal assistance in the provision of housing, create a more "normal" housing market on reservations, and reinforce self-determination. The key elements that will help achieve these objectives include:

- Tribal Council legal and administrative responsibility and accountability.
- Incentives for increased family financial responsibility.
- Increasing the housing choices available to families and Tribes to make the programs more responsive to the cultural traditions and preferences of Tribes.
- Decreasing federal regulations and intervention including reducing the MPS to a series of basic performance standards and eliminating the need for interagency funding.
- Relating housing payments to both construction cost and family income.
- Making existing programs more flexible.
- Building on residents' own construction or financial capabilites.
- Recognition of the differences among Tribes with respect to administrative capacity.

C. Basic Program Assumptions and Requirements

Although not always explicitly stated, several basic features are assumed in the Block Grant program concept.

1. All families must pay something for their housing even if the payment is only a family's welfare housing allowance.
2. All housing payments, except those of very low-income families must bear some relationship to the cost of the house as well as family income.

3. If tribal councils are required to take responsibility for the provision and maintenance of housing, this increased level of direct political accountability will correct many of the administrative deficiencies in the current program.

4. If the number and complexity of program requirements is reduced, construction and administrative costs will also be reduced.

5. If the ability to buy and sell houses at fair market value is introduced on reservations, homeowners will have an incentive for increasing their equity, making housing payments regularly and providing proper maintenance and upkeep; the creation of a "normal" housing market on reservations will eventually reduce the demand for federal assistance.

6. If the proposal is adopted a more culturally responsible Indian Housing Program will result.

D. Authorization and Appropriation

Only two or three simple amendments to the Housing and Community Development Act of 1974, as amended, would be required to establish the Indian Community Development and Housing Assistance Block Grant program.

It would be necessary to add a provision either to Section 103 or 107 making housing construction and financing assistance eligible activities for purposes of grants provided under Section 107 to Indian Tribes and Alaska Native Villages. Such assistance would be provided from the sums authorized for these purposes under Section 102.

It would also be necessary to amend Section 102 to authorize the appropriation of approximately $200 Million for purposes of grants provided under the new provisions of Section 103 or 107.

Any other concerns or limitations on the authority of the Secretary to provide assistance for these purposes could be included in the conference committee report as guidance to the Secretary in the development and promulgation of the revisions to the Indian Community Development Block Grant regulations that would be needed to accommodate the new authority. Inasmuch as Congress reviews all HUD regulations prior to their issuance, any congressional concerns could be addressed during this review and the statute need not be further complicated.

The existing Indian housing pipeline would be allowed to run out. Current estimates as to its size suggest that the pipeline will last two or three years, thereby providing an adequate planning and transition period for Tribes and the government without halting the provision of housing assistance to Tribes. No additional funds for loan authority for the existing programs would have to be appropriated to support the existing program. Taken together the existing pipeline and the appropriation for the new program should provide housing assistance for more than 6,000 Indian families annually at a cost in new appropriations of only $200 to $250 Million including $50 Million for annual contributions. This is down from the minimum $500 Million per year it would take to fund the same number of units per year under the existing program.

It should also be noted that housing construction and financing assistance are already eligible under the Community Development Block Grant program when funded either as part of an economic development project carried out by a non-profit corporation or as last resort housing under the Uniform Relocation Act. This proposed provision, therefore, would simply remove existing restrictions on the provision of housing assistance under the Community Development Block Grant program for a group of communities that has special needs and relationships witn the government that have already been acknowledged. It would not affect the "city" Community Development Block Grant programs that are funded under different sections of the Act and are governed under different regulations.

E. Program Design - How the Indian Community Development and Housing Assistance Block Grant Program Would Work

This part describes in general terms how the program would work both at the Tribal level and the federal level. This section could form the basis of the necessary revisions to the existing Indian Community Development Block Grant program.

1. General Features

The provision of housing assistance would be like any other Community Development Block Grant activity. It could be funded using the same or a similar field allocation process. Tribes could apply for housing assistance along with other Community Development Block Grant eligible activities and receive funds under the same contract. Tribes would be legally and administratively responsible although they could contract with other agencies such as the Indian Housing Authority or Tribal realty office for the construction and management of housing.

2. Eligible Housing Assistance Activities

Housing construction and financing assistance, such as the following, could be provided with Community Development Block Grant housing funds.

a. 100% housing construction grants to very low-income tribal members. Such families would still have to pay an administrative fee.

b. Loans and loan guarantees to finance construction or acquisition of housing for moderate and upper income tribal members.

c. Needed interest or other subsidies for eligible tribal members as determined by the Tribe.

d. Investment in publicly secured bonds, notes, etc., the yield and principal of which would be used to provide eligible housing assistance.

e. Establishment of revolving funds for families' housing payments and disbursement of such funds for eligible housing activities.

f. Acquisition or rehabilitation for rental or resale of privately-owned residential structures.

g. Acquisition, construction or rehabilitation of Tribally-owned residental structures for rental or resale.

h. Use of funds as guarantees or security for Tribally sponsored privately-financed housing.

i. Payment of wages, etc. for Tribal force account work crews involved in building or rehabilitating housing of Tribal residents.

j. Provision of on-site and off-site water, sewer, utility and access costs associated with the construction or rehabilitation of housing.

k. Payment for tools, materials and supervision for the construction or rehabilitation of houses by owners or renters.

l. Direct and indirect costs for planning, design, inspection and administrative costs associated with housing construction or rehabilitation.

m. Costs associated with establishment of Tribal wage rates.

Note: The actual regulatory language need not specify the preceding activities, but could simply state: "Community Development Block Grant program housing funds may be used for all costs necessary to provide housing construction and financing assistance to Tribal residents provided that the costs are necessary and appropriate to the provision of needed housing; that the funds provided are equitably distributed among Tribal residents needing assistance; that the housing is or will be the permanent full time residence of the beneficiaries; that the units are built within reasonable construction and administrative costs appropriate to their location."

3. Application, Allocation and Review Requirements

a. Application Requirements

(1) Tribes would submit, as part of their Community Development Block Grant preapplication, a description of the housing assistance program they intend to carry out during the grant period, which could be either one, two or three years, depending on whether or not the preapplication is for a basic or comprehensive grant.

(2) The description would also have to:

demonstrate the need for the assistance to be provided, including income and other data as appropriate to justify the need;

demonstrate that the Tribe has the administrative capacity to carry out the program as proposed, including a plan for how the Tribe intends to administer the program;

include the construction quality and amenity standards to be used which for new construction could not exceed existing federal minimum property standards or be lower than the following:

+ Units must be structurally sound according to acceptable construction performance standards;

- A supply of running water must be available in the unit, thought it may be provided by a roof-top tank fed by a solar pump or other means appropriate to the area;
- Units must be provided with adequate sanitary sewage treatment facilities;
- Units must be energy efficient and comfortable both winter and summer;
- Interior wiring must be provided even if power is not currently available;
- The site and soil for each unit must be able to accept the weight and effluent of each unit.

(3) The average per unit construction cost including design, engineering and administrative fees, must be identified and may not exceed a pre-determined construction cost ceiling established by HUD for the market area.

(4) Within the average per unit construction costs, the Tribe and the benefiting families would select the site and amenities to be included in each unit. If a family elects to site its unit away from an existing power line, it may do so, but the house may also be built without electricity service if the costs exceed the pre-determined ceiling and the Tribe or the family cannot pay for extending the power line. In other words, the choice of non-structural amenities is up to the Tribe or the families, but the program will not be required to pay for excess costs.

b. Allocation Requirements

Housing funds would be separately identified but allocated to field offices along with Community Development funds according to a population-based formula that would also take into account the unmet housing needs if such can be readily determined. Housing funds would have to be used for housing related activities and would be separately tracked and accounted for by Tribes and HUD.

c. Review Requirements

(1) HUD's review of preapplications proposing a housing project would be based on an objective and competitive rating scale and would include such factors as:

+ need and appropriateness;

+ cost effectiveness--the lower the per unit cost of financing or construction, the more competitive the project would be;

+ administrative efficiency--the lower the design, engineering and administrative costs of the housing assistance program proposed, the more competitive the proposal would be;

+ cultural responsiveness;

+ planning and design quality;

+ Tribal resource utilization, etc.

(2) Housing proposals would be reviewed and rated along with Community Development proposals to facilitate a comprehensive review of Tribes' plans, but funding decisions would be made from the separate housing allocation.

(3) HUD would invite consolidated community development and housing full applications, and subsequent to review would issue a single grant award that would include such conditions as may be necessary and adequately administered.

d. Implementation Requirements

(1) Tribes would be held, by contractual agreement with HUD, legally and administratively accountable for carrying out their housing program as proposed and approved. Failure to do so would result in adverse capacity determinations and the withholding of funding until such time as performance improved.

(2) Tribal councils would be the policy-setting bodies but would be required to designate either a Tribal housing agency or to "contract" for housing construction and management services with a Tribal agency or consulting firm.

The following kinds of regulatory policies would also have to be provided for:

(a) distribution of funds among categories of need of Tribal residents would have to be equitable and in accord with a Tribal strategy that takes into consideration all categories of need;

(b) frequent inspections by a qualified independent inspector of all construction or rehabilitation would be required;

(c) all except very low income families' housing payments would have to bear a logical relationship between income and the cost of construction or rehabilitation;

(d) the funding mechanism would be a Letter of Credit in which the housing program funds would be identified and accounted for separately from community development funds. The Letter of Credit would allow for the possibility, with prior HUD approval, of lump-sum drawdowns necessary for approved investments or underwriting components of a Tribe's application, if current Letter of Credit regulations do not provide for such a procedure.

(3) Tribes could use existing Community Development Block Grant program provisions for comprehensive one, two or three year grants to carry out comprehensive programs using funds from both community development and housing sources in a completely coordinated and planned manner. Such grants would always be subject to appropriations.

F. Justifications

The following discussions will demonstrate how the Indian Community Development and Housing Assistance Block Grant program can either substantially or entirely resolve the problems with the existing Indian Housing Program.

1. Costs

It will cost substantially less to build housing under the proposed program than it does under the existing program. In the few instances in which Community Development Block Grant program funds have been used to build housing, the per unit costs, including design and administration, have ranged from one-third to slightly more than half of that for units built under the existing program. The Community Development Block Grant funded houses meet county codes and are as large or larger than mutual-help units that are being built in the same area. In short, it appears that Tribes can get two or three Community Development Block Grant funded houses for the price of one mutual-help or low rent unit without substantial loss of space or amenities.

Only a handful of houses have been built using Community Development Block Grant program funds and the experience is too limited to be able to predict consistent cost-savings of this magnitude. However, the experience of several Tribes that have initiated their own housing programs provides supporting evidence. Units built under these Tribal programs consistently cost about $40,000 per unit and, when self-help and indigenous building materials are included, the per unit costs range from $10,000 to $15,000. While the quality of the units built under these Tribal programs has not been verified, preliminary indications are that the units at least meet local codes.

If one accepts the contention that these Tribal housing programs are analogous to the proposed program, it appears that dramatic cost reductions can be expected under the Indian Community Development and Housing Assistance Block Grant program.

The reasons for these reduced costs appear to be associated with the following:

+ **Design costs.** Under the existing Indian Housing Program, architecture and engineering costs are normally calculated as a fixed percentage of total construction costs--generally 6% to 8%. There is no incentive for architects to design lower cost units and design costs alone can add several thousand dollars to the cost of each unit. It seems that when Tribal governments are using their own money or are operating under an absolute grant, as in the Community Development Block Grant program, there is a substantial incentive to reduce A & E fees.

- **Labor costs.** Under the existing program all projects must be contracted out and Davis-Bacon wages must be paid. Under the Community Development Block Grant program, force account construction can be an acceptable alternative to contracting out in which case Davis-Bacon wages need not be paid. The use of force account labor appears to reduce labor costs from 50% of total costs to 36%. Tribal governments, of course, are not subject to the Davis-Bacon Act when they use their own funds.

- **Administrative costs.** Under the existing housing programs HUD's current average total development cost, excluding any IHS or BIA contributions is about $70,000 per unit. The actual construction cost per unit is $55,000. In short, about $15,000 per unit goes for administration and design costs, or more than 21%. This money obviously goes to support IHA staff and architects involved in site selection, multiple reviews, contracting, administering a very complex accounting system, etc. The cost to the government of the HUD, IHS and BIA staff involved in program administration at the federal level is unknown but is probably substantial, because each agency reviews almost every IHA action at least once.

  The existing Community Development Block Grant program must be much less expensive to administer. It is a much less regulated program. There is virtually no prior HUD review of construction and contract documents, for example. Neither do the complex administrative requirements of the Minimum Property Standards apply. The CDBG program is streamlined and has few of the costly delays associated with the existing housing program. Tribes apply for and receive Community Development Block Grant funds within a six to seven month period. While no data is available, most Tribes appear to try to keep program administration costs to a minimum in order to maximize the funds going into actual project costs. Moreover, there is a 20% statutory limitation on the amount of Community Development Block Grant funds that can be spent on planning and administration and many Tribes spend a substantial portion of this budget for planning. It appears, therefore, that providing housing assistance through the existing Community Development Block Grant funding and administrative mechanism will result in substantially reduced administrative costs.

- **Minimum Property Standards.** The Minimum Property Standards may be the single most costly item under the existing housing program. As mentioned above, their imposition contributes significantly to both A & E and administrative costs at both the IHA and federal levels. They are enforced rigidly so that equally efficient but less costly solutions to construction problems are discouraged if not precluded from being used. The Minimum Property Standards' space utilization and amenities requirements may be the most costly of all. Forced air heat is required where wood burning stoves may be adequate, if not preferred. Certain numbers of bedrooms may be required even though the composition of the family can be predicted to change radically shortly after occupancy. Indigenous building materials like adobe cannot be used, despite their obvious efficiency. Minimum Property Standards requirements substantially exceed most local building codes. It is difficult to understand why the federal government sets its standards so much higher than those required by local governments for privately financed houses.

The Community Development and Housing Assistance Block Grant program would be administered under the regulations for the existing Community Development Block Grant program. These regulations assume the existence of local building codes and sensible Tribal governments. The Minimum Property Standards do not apply. Tribes have used Community Development Block Grant funds to build major public facilities requiring sophisticated engineering and construction technology. None of them has collapsed yet, even without minimum federal standards or detailed federal reviews.

The average per square foot construction cost of reinforced concrete buildings is only slightly higher at $60.00 to $65.00 a foot on most reservations than the same cost for building houses under the existing housing program. The average per square foot construction costs of houses built under the existing program appear to range from $40.00 to $45.00 a foot when all design and administrative costs are included. The Community Development Block Grant funded houses have costs between $20.00 and $25.00 per square foot and the houses at least meet local codes, if not Minimum Property Standards.

2. Amount of Assistance Provided

More Indian families can receive as much or more housing assistance under the proposed Community Development and Housing Assistance Block Grant program as under the current program.

From the foregoing discussion of construction cost considerations, it seems clear that Tribes will be able to build more houses for the same money if the Block Grant approach is used. Tribes will also be able to assist more families because they will be able to use the proposed program to leverage private resources by providing loans or loan guarantees to families who can afford to finance all or most of their homes but cannot get loans because of the trust status of Indian land.

Under the proposed program, Tribes could lend housing block grant funds to credit-worthy families to buy or build houses and charge interest, fees, etc. just like a bank. The families' housing payments could go into a revolving fund which after several years would be large enough to finance additional housing assistance. Or Tribes could use housing funds as a form of mortgage insurance or as loan guarantees to assist these families in getting private financing. Either way, the housing block grant funds could provide assistance to more families for the same investment of capital as it could with construction grants.

Moreover, one of the assumptions of the new program is that families can and will pay more for housing if there is a sound, economic incentive for them to do so. Under the proposed program many such incentives exist. First, most Tribes will be under pressure to provide as much housing as possible. Tribes, therefore, would have an incentive to make sure that "rents" are paid because there would be a direct relationship between collections and the ability of the Tribe to provide more housing assistance. There would also be greater incentives for Tribes to evict families for non-payment because the Council at least got the benefit of providing the housing assistance in the first place. There would be more positive incentives as well. If housing becomes an economic "commodity" that can be bought, sold and borrowed against, families can take advantage of appreciation in value and the equity they would be building up. In short, by creating a "real estate" market on reservations, at least some Indian families will be able to receive the same advantages of homeownership that non-Indian homeowners do. And, finally, as more families pay more for their houses, the Tribe has to pay less. Again, more housing assistance could be provided for the same or even less Block Grant money.

3. Pipeline

Under the existing program, it takes at least two years to design and build houses. Often it takes much longer and much of the delay is caused by the federal government. Under the Block Grant program, the pace of development would be dictated by the Tribe, not federal requirements. Tribes would have an incentive to develop the units as fast as possible. Failure to do so could result in withholding of further funding until the units under an existing grant are completed. The Block Grant program appears to be a fast track program generally. It is not unusual for example, for major public facilities to be designed and built in less than a year to eighteen months, and residential construction is generally considered to be simpler than major facilities construction.

It is estimated that most Tribes could design and build housing in one year from the date of contract award. The use of force account labor would probably increase the construction period but the savings in labor costs would more than offset the cost of the delay.

4. Lack of Rent Collections

As mentioned above, there are many positive and negative incentives for Indian families and Tribes to insure rent collections. Those Tribes that have their own housing programs do not appear to have collection problems. These Tribes have adopted firm pay-or-leave policies that work. It may be that the families on these reservations also better understand what they are paying for because there is a clear and direct relationship between what these Tribes paid to build the units and what the families are paying back to the Tribes. Under the existing program, families' payments are geared only to income and bear no relationship to construction cost.

Based on the experience of the Tribes that have their own housing programs, it seems reasonable not only to predict improved rent collections but also to claim validity for one of the principal assumptions of this proposal. If accountable Tribal Councils assume complete responsibility for the provision of housing assistance, they will carry out their programs more responsively than many Indian Housing Authorities have.

5. Interagency Agreement

Under the proposed Indian Community Development and Housing Assistance Block Grant program, there would be no need for the Interagency Agreement between BIA, HUD and IHS which adds a very complicated general program coordination layer to an already overcomplicated federal-Tribal-housing authority coordination mechanism.

The current Interagency Agreement approach does not work very well at least in part because there are few incentives for Tribes to divert their water and roads funds from other Tribal priorities to new HUD housing projects when they know that somehow BIA and IHS have to come up with funds for the new housing. Housing authority commissioners often complain that their Tribes do not support them in their annual water and roads budget negotiations with IHS and BIA; that Tribes use these funds for purposes other than to support housing construction.

Under this proposal, IHS would still provide water and sanitation services and BIA would still provide roads just as they do now for projects that are not related to HUD housing projects. The Tribes would be responsible for coordinating the resources of the three agencies according to Tribal, not agency, priorities. It is likely, however, that Tribes will choose to make support of HUD housing construction a priority for their water and roads allocations since the funds will be used for the Tribe's rather than the IHA's priorities.

6. The Complexity of the Program

The complexity and over-regulation of the existing program have been cited in several places. The relative simplicity of the Community Development Block Grant program has also been mentioned. The great differences between the two programs, however, can best be inferred from the following. The Indian housing handbook is two inches thick and several hundred pages long. Its regulations take up about 60 pages in the Code of Federal Regulations. The Community Development Block Grant program has no handbook requirements at all. Its regulations have been inflated by the inclusion of 20 pages of the full text of administrative requirements that are generally only referenced in regulations so that Tribes would have only a single program document to work from. The Community Development Block Grant program regulations take up only 50 pages of the Code of Federal Regulations, even with the extra text.

Preapplications and full applications for Block Grant funds consist only of a brief narrative project description, general cost data, summary, demographic information and project location map if one is appropriate.

The HUD review process for both applications averages only 90 to 120 days. The program is competitive and funding decisions are made on the basis of objective, published rating systems that are, by regulation, developed in consultation with Tribes. The program's administrative requirements are also relatively simple compared to other federal programs and the complexity of Tribal administrative processes and records are dictated by common sense and the size and complexity of projects rather than federal regulations.

One or two people can adequately administer a Block Grant for smaller reservations and many Tribes successfully manage with less.

The existing housing program is the opposite. The initial applications require voluminous project information and needs justifications, very detailed budgets and cost estimates, the submission of schematic designs, etc. The second application requires even more information. HUD's review process includes detailed architectural and engineering technical and cost analyses that most often result in major revisions, re-working and re-reviewing at the IHA, Tribal and federal levels. The BIA, HUD and IHS review processes typically take more than a year to complete. It is clear, however, that this detailed and drawn-out review process often does not result in superior housing designs or lower construction costs. The decision-making process is often for the convenience of the government and has never been based on published criteria. The administrative requirements for the housing programs are very difficult and it often takes five or six people to implement a single housing project.

7. Administrative Capacity, Program Abuse and Mismanagement

Administrative capacity problems at the Tribal or IHA level remain serious. Many Tribes simply lack the human resources to carry out complex federal programs. While some Tribes have had difficulty carrying out Community Development Block Grant projects, only a handful of the 500 Tribes across the country have had Community

Development Block Grant funds withdrawn or funding withheld for more than a year because of administrative problems. However, most IHAs have had and continue to have serious problems in administering the housing program.

The housing programs seem to invite abuse, if not fraud. The Community Development Block Grant program, even without many safeguards and with direct access to the Treasury, apparently does not. There have been so many instances of housing authority staff stealing money that IHA fidelity bond insurance premiums have almost doubled in the last three years. This is not apparently the case with the Community Development Block Grant program. The authors of this proposal are not aware of a single case of fraud or theft under the Community Development Block Grant program. If there are such cases, the lack of public attention suggests that the incidents have been few and relatively minor.

8. HUD Organization

Almost all Tribes and IHAs have complained about HUD's ability to deliver housing resources. The complaints range from the almost obligatory gripes about federal bureaucratic delays to serious personal allegations of deliberate inaction and worse. The number of complaints against HUD appear to have become epidemic. This situtation does not appear in the Community Development Block Grant program. There seems to be general agreement among most Tribes that HUD's administration of the Community Planning and Development programs has at least been timely and adequate and sometimes more than adequate. Such complaints as Tribes have made seem to be project specific and rarely seem to involve the same kind of recurring problems and delays, poor quality work, etc.

9. Cultural Responsiveness

The flexibility of the Community Development Block Grant program requirements and the wide range of activities for which Community Development Block Grant funds can be used have served to make it one of the most culturally responsive of all federal programs. Tribes can and have designed Community Development Block Grant programs around their priorities with little or no need to distort Tribal objectives to meet federal requirements. The same cannot be said for the housing programs under which Tribal cultural preferences are submerged under the non-Indian cultural values inherent in the Housing Act and the Minimum Property Standards.

Senator SCHMITT. Thank you; that's very constructive testimony and it's going to be of great interest. I have another question in a moment or two, but I would like to have Mr. Whipple of the Fort Defiance Housing Corp. provide us with his comments. Mr. Whipple?

STATEMENT OF HENRY WHIPPLE, FORT DEFIANCE HOUSING CORP.

Mr. WHIPPLE. Thank you, Mr. Chairman. I'll attempt to confine my comments to the five issues that you had outlined in your letter.

NON-FEDERAL CREDIT AVAILABLE

The first one being non-Federal credit available in rural areas. The Fort Defiance Housing Corp. has helped develop the land for development of housing projects other than public housing.

These provisions have been drafted and been adopted and approved by the Farmers Home Administration, Federal Housing Administration, Veterans' Administration, Federal and National Mortgage Administration as well as the Navajo Tribe of Indians and the Bureau of Indian Affairs.

With the approval of the land lease by these Federal agencies and the Navajo Tribe, this allows the non-Federal credit to be extended to an approved housing site for housing loans that will be insured and/or guaranteed by FHA or the VA. However, because the lease was adopted and approved by the Federal agency so very recently, very little development has occurred under the FHA insured program and no development at all under the VA guaranteed program.

I might note that this type of land lease was developed for subdivision type of developments and not for individually standard land leases.

The Navajo reservations have been identified as being a rural area.

Your second point that you had is, does Farmers Home Administration regulations add unnecessarily to the cost of houses built under their programs? The Farmers Home Administration has regulations adopted under FHA restrictions 424.5 exhibit A a checklist of exhibits and documentation for the submittal of documents and exhibits on the proposed subdivision.

Three steps have to be taken; namely, first feasibility exhibits; second, preliminary submission exhibits and third, final submission exhibits. All three steps must be submitted consecutively which is very time-consuming and as a result adds to the cost. Many of the documents and exhibits required for each submittal are repetitious which are unnecessary and costly.

One puzzling aspect I have experienced is the fact that Farmers Home will not accept application approved by Farmers Home and the Veterans' Administration for development.

Although many of the exhibits and documents are the same, a developer has to submit complete, separate documentation and exhibits to Farmers Home even though the FHA and VA have approved a housing site for development. Why cannot Farmers Home regulations be amended to accept the same documents and exhibits as approved by FHA and VA?

If this can be done, it would save much time and money for the developer which would result in a cost savings of the houses built under the Farmers Home programs.

A third issue is: Is the organizational structure of Farmers Home in New Mexico an obstacle to the speedy development of housing? Although there has not been any actual development of the Farmers Home programs completed by our organization in the State of New Mexico, we have observed that the organizational structure as in the State of Arizona, there are three different levels of organizational structure that exist: county supervisor, district director, and the State director's office.

It is held that rather than have an additional director, that additional staff be added at the county level which is where the real act exists. This would be abolishment of the district level and by so doing would eliminate one additional step for receiving approval on multifamily housing developments and rural site-type development loans.

The experience has been that most of the approvals for this type of loan has come to the State office and doesn't go anywhere. It is felt that by adding staff at the county level, this would tend to expedite approvals in a much more timely manner.

One suggestion that I would make would be to have one central State office handle all of the requests and approvals of the Navaho Reservation and possibly other Indian reservations located in the States. The present situation is such that our organization has to deal with three different State offices since the reservation extends into three different States: New Mexico, Arizona, and Utah.

If this could be arranged and then there should also be a few county supervisor offices established throughout the reservation. By doing this, this would also help alleviate a heavy workload that the few staff members at the existing county supervisor level are experiencing.

INDIAN LOAN OBSTACLES

The fourth subject you have, is what specific obstacles prohibit the use of Federal programs on Indian loans? One, our total development on the previously mentioned projects, there is no lending institution that would lend money for development of housing without a Federal agency guarantee behind it.

Second, many of the Navaho people would prefer to construct houses on standard individual homesites because of Federal regulations, FHA and VA regulations this is impossible except for subdivision-type development.

The FHA under the National Housing Act requires a lease of not less than 50 years to rent from the date a mortgage is executed. That requirement presents no problem now, but 15 years with the remaining terms throughout the years, a lease will not be eligible for FHA financing. This particular regulation forced the Navaho Tribe and the BIA to grant terms of 99 years of a land lease in order to qualify for FHA insured loans. This requirement should be amended or repealed as it is totally unfair to Indian reservations.

The fourth thing; there is no funding allocations set aside at the State office levels of the Federal agency for the Indian reservations. This means that Indian reservations will have to compete against the rest of the State communities for available funding.

This could tend to create a situation that would make low application approvals submitted by Indian tribes or Indian development organizations to be identified as nonpriority.

The present financial market situation of very high interest rates has a very prohibiting effect for the use of Federal guaranteed housing loans on Indian reservations. Though this is a nationwide problem, it also has an effect on Indian housing loans and on nonsubsidized housing programs.

The fifth point that you had is: How should Federal assistance be provided to most effectively aid rural development? The experience has been that structural housing or any other type of development has been done at a high cost on Indian reservation lands.

Two prominent factors; the high cost because of the remoteness of Indian reservations and the nonreadily availability of necessary materials and services needed to construct the project.

The Indian Health Service Office of Environmental Health has in the past provided all utility installation for housing projects it received. This is done with no additional cost to the home buyers. This particular factor has its effect on holding the mortgage amounts for homes within reasonable cost limits. I feel that this should continue if at all possible.

Federal funding could be used to establish a revolving fund for the development of paved streets, curb and gutter, and all necessary site grading on housing sites to be developed.

If the Federal guarantees on housing loans are ever abolished, this would have dire effects on rural housing and particularly on housing that could be developed on the Indian reservation.

As I mentioned before, there are no private lending institutions that will extend credit on Indian lands without the Federal guarantee. Conventional loans for housing on Indian reservations are nonexistent. Federal guarantee of housing loans should be continued.

I would like to make mention of the fact that I talked to local banks over there in Window Rock and I understand that they will make conventional loans, and I wasn't aware of that, so they have the go-ahead to go and do that, but nothing has resulted from that because of high interest rates.

In closing, I know that there are other problem areas not mentioned, but I feel these are some of the more pertinent ones.

With the development of these programs, we will be able to assist those Indian people who have shown the initative and desire to obtain meaningful employment, but were never given the opportunity to participate in housing programs that are available because their income was too high.

The lack of funding of housing programs of the FHA, VA and Farmers Home has also had a deterimental effect on the Indian reservation's attempts to attract the best economical development firms to establish on Indian land.

Federal agencies that work with various tribes as well as tribal counsels have been unable to attract key and highly qualified personnel simply because they could not guarantee adequate housing. With the cutback in Federal spending, these housing programs become of paramount importance to the Indian reservation.

Thank you.

Senator SCHMITT. Thank you, Mr. Whipple.

[Whereupon, the prepared testimony of Henry Whipple was admitted and is as follows:]

H. WHIPPLE & ASSOCIATES

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January 14, 1982

ADDITIONAL ITEMS TO WRITTEN STATEMENT FOR

SENATE SUBCOMMITTEE ON RURAL HOUSING AND DEVELOPMENT

1. Housing sites developed with FmHA Section 524 Site Development Loans must be sold to individual families for construction of low to moderate income housing. Thus, to qualify to purchase a site the adjusted family income must be $15,600 a year or less. We attempted to get some high income people that qualified for FHA non-subsidized loans included at a site developed using a FmHA rural site development loan. The Navajo Tribe donated $115,000, Public Health Service assisted with $125,000 Navajo Tribal Utility Authority assisted with $42,759. The FmHA would not allow us to process FHA non-subsidized loans because of regulations listed under FmHA Section 524 even though the funding used for site development was not exclusively FmHA. There were several families that had to be turned away because of this ruling.

2. Present policy of FmHA establishs the maximum income limit for qualification at $15,600. The interest credit program, which is the subsidy for the RH 502 program, begins at an adjusted income of $11,200. With the present high interest rates, there is no possibility that persons making incomes between $11,200 and $15,600 could qualify for a home loan under existing financial conditions. In reality, only those families that qualify for the interest credit program have an opportunity to participate in FmHA's single family housing programs. I understand that the income limits have been changed to read $19,500 and $14,000.

3. Preapplication for a 60 unit rural rental housing loan under FmHA Section 515/HUD Section 8 programs was submitted on May 17, 1977 to FmHA. The construction contract for the project was finally signed on October 17, 1980. This was a period of 3 years and 5 months that it took to receive approval for this project. The project ended up with 42 units rather than 60 as originally planned. The 42 units were built at a cost much higher than originally estimated as a result of the time lag in receiving project approval. Because of the amount of loan involved, approval of the project had to come from the national office of FmHA.

The Fort Defiance Housing Corporation
P. O. Box 217
Fort Defiance, Arizona 86504

January 14, 1982

The attached summary outlines the progress the Fort Defiance Housing Corporation has made in its pursuit of housing for the Navajo Nation. Listed are projects that have been completed and those projects that are being planned for construction in the very near future.

A NON-PROFIT HOUSING CORPORATION SERVING THE NAVAJO NATION

PROJECTS COMPLETED

NAME	No. of Units	Location	Type of Project	Total Cost of Project
1. Rio Puerco Acres	86	Fort Defiance, Arizona	FHA Section 221-(d)(3) Rent Supplement	$1,796,100
2. Rio Puerco Acres	50	Fort Defiance, Arizona	FHA Section 235	930,000
3. Red Lake Acres	60	Navajo, New Mexico	FHA Section 221-(d)(3)	1,399,100
4. St Michaels-Window Rock Sub Unit A	30	Window Rock, Arizona	FmHA Section RH 502 FHA Section 203b	840,000
5. St Michaels-Window Rock Sub Unit A	56	Window Rock, Arizona	FmHA Section RH 502 (subsidized)	2,502,190
6. Staff & Faculty Hsg. Navajo Community College	42	Tsaile, Arizona	FmHA Section 515/ HUD Section 8	2,580,000
Total	324		Total	$10,047,390

PROJECTS PLANNED

NAME	No. of Units	Location	Type of Project	Total Cost of Project
7. Northwest Shiprock Subdivision	102	Shiprock, New Mexico	FHA Section 235,203b FmHA Section RH 502 VA Guaranteed Loans	$5,426,500
8. Blackrock Acres Subdivision	106	Fort Defiance, Arizona	Same as above	5,879,500
Total	208			$11,306,000

Senator SCHMITT. Do you think that outside of the use of federally guaranteed loans that we can stimulate private development on private lands.

Mr. WHIPPLE. Yes, sir.

Senator SCHMITT. Because of this homeownership problem?

Mr. WHIPPLE. I feel that way because under those kinds of programs, you're using private financing that will develop that type of housing and a lot of the Federal programs that are existence on the reservation right now, they just can't take care of the high level of management individuals. That's what these firms would be bringing into the reservation.

TRIBAL GUARANTEED LOANS

Senator SCHIMTT. What about—could the tribe underwrite the loans; what about tribal guaranteed loans?

Mr. WHIPPLE. Pardon?

Senator SCHMITT. What about the tribe guaranteeing loans?

Mr. WHIPPLE. We feel—or I do anyway, that we have to have a starting point. First we deal with and get these kinds of programs implemented. After that, we approach the tribe and say, look, we're going to employ the same rules that these other agencies employ if you want to get involved in this.

We had every intention of eventually going to the tribe and doing these things, but there's been attempts at many, many things from the tribal government itself that just haven't succeeded and because of that they're so shy of anything to do with that, and it would take a real explanation of some sort, a well laid out program so that they can understand what the benefits would be.

I might mention too that at one time we started with a Federal savings and loan out of Phoenix to establish a branch savings and loan right there in Window Rock, but it didn't pan out because we didn't have these programs to the level that we have them today; it sank. The timing of the two things just wasn't in order, that's what happened, so we lost the savings and loan. Now we have the program but we have no institute to service loans and process loans.

Senator SCHMITT. Jon, do you have any comments on this ownership problem?

Mr. COLVIN. Well, I think that one thing that needs to be remembered is that even though the Navaho Tribe may be the richest tribe in the Nation that it also has the greatest amount of land and greatest number of people and if one divides that up and he's trying to figure out how to meet politically and socially all the needs of the Navajo people with the resources that are available, it becomes a very difficult problem to try to figure out, how to make the best use of what tribal resources there are, spread them out so that it doesn't look like they're being concentrated in a certain area, if we have to do, across the country or State or within the county and that poses a problem.

What we're trying to approach here and what Henry has been trying to work on as well is homeownership wherein even though the land would not be alienated from its trust status, then perhaps 99-year leases or something similar, they've worked very well in Hawaii and other places where the land underneath your house is not owned by you and yet in those places there is an existing housing market that's developed.

We are hopeful that we do that same sort of thing within the Navajo Nation and allow people to own their own homes. Certainly that would create right of ownership and it would certainly be more incentive for people to either locate on the reservation and stay there because they have built up equity in their homes which they currently cannot do. That's why we have, say at Window Rock, a lot of these folks, both tribal and Federal employees who live in Gallup because they can buy a home there, it's their own home and it will increase in value and it's much more natually rewarding for them to do that, but we get out into Chinle or some of the more remote areas of the reservation where commuting would be an impossibility because of the roads and weather conditions, we have to develop that sort of thing in our own area, that's what we're working on.

Senator SCHMITT. But even if you had homeownership on tribal land, would the tribe ever allow a foreclosure proceeding to go if payments were not——

TRIBAL FORECLOSURES

Mr. COLVIN. They already have. There is a case and Henry may have a little bit more detail on it than I wherein several years ago, a house was foreclosed on we went to a tribal court and the court upheld it there and then it went into Federal court and the Federal court upheld it and the tribe is usually given the right of first refusal to try to take over that unit if it so wanted, and if it cared not to then, that would be sold to some other individual but wants to live and is working in that same general area.

I don't foresee that as being a problem, although there are going to be some more legal entanglements with the Bureau and the tribe and the other agencies that are going to have to be sorted out before it becomes really——

Senator SCHMITT. Well, it's been a problem with other types of loans, automobile loans, for example.

Mr. COLVIN. But there is that one example and that I think is a good sign.

Senator SCHMITT. Mr. Whipple, did you have a comment?

Mr. WHIPPLE. Yes; we had 50 units of 235's that the Fort Defiance Corp. built back in 1974 and some of those units were foreclosed on just very recently. What happened there, the mortgages got paid-off by the Federal Government and then they turned around and just sold them back to the Navajo Tribe. I think they sold them back at a dollar a unit or something like that, but they sat there for so long that they got heavily vandalized, that's what happened.

Senator SCHMITT. Does the tribe have any regulations that are significant inhibitive to the development of housing on the reservation?

Mr. COLVIN. One regulation is the Davis-Bacon and the particular rules they have regarding wages and that sort of thing.

Another area that is not really the regulations, is more the historical cultural precedent in the obtainment of land wherein lands, of course, are owned by the tribe for the benefit of everybody. People then have raising rights and customer use rights on those lands and they can go back for a number of years, quite a few years. The obtaining of land then must generally be done by getting consent of those land users; that is often not easy to do because many of those land users are older folks who are more tied to the traditional form of agra life-style or their economic income is concerned or they may also may be looking and trying to preserve the land that they feel they have control over even though they don't own it for their descendants.

It's a very difficult thing for us to obtain land whether it's individual homesite leases even when the person may have his own grazing rights, as I think that was mentioned earlier, it may take 1 year or 2 years for that to be obtained. It's even more difficult generally to do it on a larger project site basis.

Mr. WHIPPLE. Recently we've approached a tribe and the wage rates that they've been trying to enforce, some of the rates that they had adopted were higher than the Davis-Bacon rates and we had presented them with a presentation that we proved to them what the labor rates are really doing in our construction over there, so they actually gave us a waiver and we're allowed to use, under the type of program we're developing, nonunion wage rates for the State of New Mexico.

They have allowed us to do this. Now, they told us that that will stay in effect as long—or until another labor policy is adopted by the tribe; how far down the road that is, I don't know. It could be years.

Senator SCHMITT. Gentlemen, I want to say how much I appreciate your being here to provide us with these insights. I suspect we're going to be able to do something in the near future to help out a little bit. I'm not quite sure what will be politically salable, we'll just have to work that out, but your insights are very helpful. Thank you.

[Whereupon, the hearing was adjourned.]

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